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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 29, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from_____ to _____

Commission File Number 1-13449

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

501 Sycamore Drive, Milpitas, California 95035

(408) 944-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

As of the close of business on November 4, 2002, 158,069,038 shares of Quantum Corporation's common stock were issued and outstanding.

QUANTUM CORPORATION

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

QUANTUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per-share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Product revenue	$ 159,850	$ 215,944	$ 316,737	$ 425,940
Royalty revenue	44,603	50,395	90,166	104,855
Total revenue	204,453	266,339	406,903	530,795
Cost of revenue	144,843	177,065	284,704	331,089
Gross margin	59,610	89,274	122,199	199,706
Operating expenses:				
Research and development	29,385	27,487	55,011	57,762
Sales and marketing	27,045	26,895	53,135	58,695
General and administrative	17,652	23,589	39,714	49,893
Goodwill impairment	58,689	—	58,689	—
Special charges	14,096	16,989	14,720	61,984
Purchased in-process research and development	—	—	—	13,200
	146,867	94,960	221,269	241,534
Loss from operations	(87,257)	(5,686)	(99,070)	(41,828)
Equity investment write-downs	—	(4,670)	(17,061)	(4,670)
Interest and other income (expense), net	(3,993)	(1,424)	(7,236)	(788)
Loss before income taxes	(91,250)	(11,780)	(123,367)	(47,286)
Income tax provision (benefit)	819	(2,655)	(3,966)	(6,947)
Loss from continuing operations	(92,069)	(9,125)	(119,401)	(40,339)
Discontinued operations:				
Loss from NAS discontinued operations, net of income taxes	(19,375)	(9,289)	(28,628)	(19,468)
Gain on disposition of HDD group, net of income taxes	—	3,545	—	122,872
Income (loss) from discontinued operations	(19,375)	(5,744)	(28,628)	103,404
Income (loss) before cumulative effect of an accounting change	(111,444)	(14,869)	(148,029)	63,065
Cumulative effect of an accounting change	—	—	(94,298)	—
Net income (loss)	$ (111,444)	$ (14,869)	$ (242,327)	$ 63,065
Loss per share from continuing operations				
Basic	$ (0.59)	$ (0.06)	$ (0.76)	$ (0.26)
Diluted	$ (0.59)	$ (0.06)	$ (0.76)	$ (0.26)
Income (loss) per share from discontinued operations				
Basic	$ (0.12)	$ (0.04)	$ (0.18)	$ 0.67
Diluted	$ (0.12)	$ (0.04)	$ (0.18)	$ 0.67
Cumulative effect per share of an accounting change				
Basic	$ —	$ —	$ (0.60)	$ —
Diluted	$ —	$ —	$ (0.60)	$ —
Net income (loss) per share				
Basic	$ (0.71)	$ (0.10)	$ (1.55)	$ 0.41
Diluted	$ (0.71)	$ (0.10)	$ (1.55)	$ 0.41
Weighted average common and common equivalent shares				
Basic	156,932	155,545	156,687	155,383
Diluted	156,932	155,545	156,687	155,383

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 29, 2002 (Unaudited)	March 31, 2002 (1)
Assets		
Current assets:		
Cash and investments	$ 308,915	$ 344,433
Accounts receivable, net of allowance for doubtful accounts of $7,491 and $6,233	120,344	149,424
Inventories	93,249	98,801
Deferred income taxes	42,774	42,038
Service inventories	52,168	48,287
Other current assets	33,662	36,842
Current assets of discontinued operations	12,205	59,220
Total current assets	663,317	779,045
Long-term assets:		
Property and equipment, net	66,724	76,405
Goodwill, net	9,958	135,817
Intangible assets, net	57,017	64,305
Other assets	13,124	42,367
Receivable from Maxtor Corporation	95,833	95,833
Total long-term assets	242,656	414,727
	$ 905,973	$1,193,772
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 83,111	$ 65,503
Accrued warranty	39,461	42,176
Short-term debt	3,097	41,363
Other accrued liabilities	140,109	147,059
Current liabilities of discontinued operations	2,472	9,615
Total current liabilities	268,250	305,716
Long-term liabilities:		
Deferred income taxes	31,235	40,055
Convertible subordinated debt	287,500	287,500
Total long-term liabilities	318,735	327,555
Stockholders' equity:		
Common stock	190,076	190,477
Retained earnings	128,912	370,024
Total stockholders' equity	318,988	560,501
	$ 905,973	$1,193,772

(1) Derived from the March 31, 2002 audited consolidated financial statements included in the Annual Report on Form 10-K of Quantum Corporation for fiscal year 2002.

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended,	
	September 29, 2002	September 30, 2001
Cash flows from operating activities:		
Loss from continuing operations including cumulative effect of an accounting change	$ (213,699)	$ (40,339)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities of continuing operations:		
Cumulative effect of an accounting change (SFAS No. 142 adjustment)	94,298	—
Purchased in-process research and development	—	13,200
Depreciation	19,004	19,155
Amortization	6,516	15,962
Goodwill write-down	58,689	—
Deferred income taxes	(10,259)	17,428
Compensation related to stock incentive plans	890	14,295
Equity investment write-down	17,061	4,877
Changes in assets and liabilities:		
Accounts receivable	25,925	25,160
Inventories	5,552	15,985
Accounts payable	18,860	13,278
Income taxes payable	(10,313)	(2,486)
Accrued warranty	(2,899)	(8,817)
Other assets and liabilities	(1,062)	(68,683)
Net cash provided by operating activities of continuing operations	8,563	19,015
Net cash used in operating activities of discontinued operations	(8,489)	(5,259)
Net cash provided by operating activities	74	13,756
Cash flows from investing activities:		
Purchases of equity securities	(126)	(19,215)
Proceeds from sale of equity securities	11,000	—
Investment in M4 Data (Holdings) Ltd.	—	(14,852)
Purchases of property and equipment	(10,409)	(22,039)
Net cash provided by (used in) investing activities of continuing operations	465	(56,106)
Net cash used in investing activities of discontinued operations	(21)	(11,153)
Net cash provided by (used in) investing activities	444	(67,259)
Cash flows from financing activities:		
Purchases of treasury stock	—	(38,716)
Principle payments of short-term debt	(38,709)	—
Proceeds from issuance of common stock, net	3,034	36,693
Net cash used in financing activities of continuing operations	(35,675)	(2,023)
Net cash provided by financing activities of discontinued operations	73	1,654
Net cash used in financing activities	(35,602)	(369)
Decrease in cash and cash equivalents from continuing operations	(26,647)	(39,114)
Decrease in cash and cash equivalents from discontinued operations	(8,437)	(14,758)
Net decrease in cash	(35,084)	(53,872)
Cash and cash equivalents at beginning of period	343,878	397,537
Cash and cash equivalents at end of period	$ 308,794	$ 343,665
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 7,119	$ 7,030
Income taxes	$ 21,816	$ 10,139
Notes payable issued in respect of M4 Data (Holdings) Ltd. acquisition	$ —	$ 41,363
Value of common stock tendered in satisfaction of taxes payable on vesting of employee stock options	$ 4,861	$ 8,527

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Quantum Corporation ("Quantum" or the "Company") (NYSE: DSS) and its majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. Certain items previously reported in specific financial statement captions have been reclassified. Such reclassifications have not impacted previously reported net income (loss) amounts. The condensed consolidated balance sheet as of March 31, 2002, has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum for the fiscal year ended March 31, 2002, included in its Annual Report on Form 10-K.

Disposition of HDD group. Until the beginning of fiscal year 2002, Quantum operated its business through two separate business groups: the DLT & Storage Systems group ("DSS") and the Hard Disk Drive group ("HDD"). On March 30, 2001, Quantum's stockholders approved the disposition of the HDD group to Maxtor Corporation ("Maxtor"). On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock. In the consolidated statements of operations, the results of the disposition of the HDD group in the three and six-month periods ended September 30, 2001 have been classified as "Gain on disposition of HDD group, net of income taxes".

Disposition of NAS business. The Network Attached Storage ("NAS") business was sold on October 28, 2002. Quantum engaged in the NAS business following the acquisition of Meridian Data, Inc. in September 1999 and of certain assets of Connex in April 2001. As a result of this disposition, the condensed consolidated financial statements and related footnotes have been restated to present the results of the NAS business as discontinued operations. Accordingly, in the condensed consolidated statements of operations, the operating results of the NAS business have been classified as "Loss from NAS discontinued operations, net of income taxes", for the three and six-month periods ended September 29, 2002 and for the comparable periods. In the condensed consolidated balance sheet, the assets and liabilities of the NAS business have been classified as "Current assets of discontinued operations" and "Current liabilities of discontinued operations".

The cash flows from the NAS business have been presented as net cash flows from discontinued operations in the operating, investing and financing sections of the condensed consolidated statements of cash flows. There were no cash flows from the HDD group in the periods presented.

Note 2: Discontinued Operations

Disposition of the HDD group

On March 30, 2001, Quantum's stockholders approved the disposition of the HDD group to Maxtor. On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock.

The HDD group produced two primary product lines, desktop hard disk drives and high-end hard disk drives. HDD had two separate business units that supported these two product lines. The desktop business unit designed, developed and marketed desktop hard disk drives designed to meet the storage requirements of entry-level to high-end desktop personal computers in home and business environments. The high-end business unit designed, developed and marketed high-end hard disk drives designed to meet the storage requirements of network servers, workstations and storage subsystems.

In the six months ended September 30, 2001, Quantum recorded a non-cash gain of $122.9 million on the disposition of the HDD group to Maxtor. This gain, net of tax, is comprised of the proceeds recorded for the exchange of HDD shares for Maxtor shares, less the disposal of the assets and liabilities in conjunction with the disposition of the HDD group to Maxtor, and stock compensation charges for the conversion of unvested DSS options to DSS restricted stock for employees who transferred to Maxtor.

Quantum has recorded a receivable of $95.8 million from Maxtor for the portion of the convertible subordinated debt previously attributed to the HDD group and for which Maxtor has agreed to reimburse Quantum for both principal and associated interest payments. Although Quantum believes the $95.8 million due from Maxtor will ultimately be realized, if Maxtor were for any reason unable or unwilling to pay such amount, Quantum would be obligated to pay this amount and record a loss with respect to this amount in a future period.

Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute. This agreement between Quantum and Maxtor entered into in connection with the disposition of the HDD group to Maxtor, provided for the allocation of certain liabilities related to taxes between Quantum and Maxtor and the indemnification by Maxtor of Quantum with respect to certain liabilities relating to taxes and attributable to the HDD group's conduct of business prior to the disposition of the HDD group. Maxtor and Quantum presently disagree as to the amounts owed under this agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that Quantum will be successful in asserting its position. If disputes under this agreement cannot be resolved favorably, Quantum may incur significant liabilities and costs to litigate or settle these disputes, which could have a material adverse effect on its results of operations and financial condition.

Disposition of the NAS Business

Quantum had been engaged in the business of developing, manufacturing, and selling network attached storage solutions for the desktop and workgroups. These NAS products consist primarily of server appliances that incorporate hard disk drives and an operating system designed to meet the requirements of entry, workgroup, and more recently, enterprise computing environments, where multiple computer users access shared data files over a local area network.

On October 7, 2002, Quantum entered into an agreement with a privately held third party to sell certain assets and assign certain contract rights related to its NAS business. The transferred NAS assets included inventories for resale to customers, service inventories, fixed assets and intellectual property. The proceeds from the sale include approximately $4.7 million in cash, $3.9 million in restricted equity securities of the buyer (with an option to purchase up to an additional $1.8 million of such equity securities), a secured promissory note for $2.4 million issued by the buyer and the assumption by the buyer of $1.6 million of warranty liability in connection with the current installed base of NAS products. The sale closed on October 28, 2002.

The following table summarizes the results of the NAS business (unaudited):

	Three Months Ended		Six Months Ended	
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Revenue	$ 10,681	$ 15,535	$ 19,709	$ 30,364
Gross margin	942	2,284	860	4,195
Operating expenses	21,615	16,602	35,371	34,115
Loss from operations	(20,673)	(14,318)	(34,511)	(29,920)
Loss before income taxes	(20,675)	(14,302)	(34,536)	(29,889)
Income tax benefit	(1,300)	(5,013)	(5,908)	(10,421)
Net loss	(19,375)	(9,289)	(28,628)	(19,468)

The loss from operations in the three and six-month periods ended September 29, 2002 include an impairment charge of $16.4 million. In the second quarter of fiscal year 2003, Quantum determined that the sale of the NAS business was probable and wrote down the assets held for sale to fair value less cost to sell. The fair value of the assets held for sale was determined to be the proceeds from the sale. The resulting impairment charge related mainly to completed technology arising from the acquisitions of Meridian Data Inc. and certain assets of Connex.

The following table summarizes the current assets and current liabilities of discontinued operations:

	September 29, 2002 (Unaudited)	March 31, 2002 (Unaudited)
Current assets of discontinued operations:		
Inventories	$ 2,215	$ 2,837
Service inventories	2,253	2,016
Property and equipment, net	1,524	2,123
Goodwill, net	—	25,340
Intangible assets, net	6,213	26,904
	$ 12,205	$ 59,220
Current liabilities of discontinued operations:		
Accrued warranty	$ 1,600	$ 1,034
Deferred income taxes	872	8,581
	$ 2,472	$ 9,615

Note 3: Cumulative Effect of an Accounting Change

On April 1, 2002, Quantum adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* which required companies to discontinue the amortization of goodwill and certain intangible assets with an indefinite useful life. Instead, goodwill and intangible assets deemed to have an indefinite useful life must be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter, or more frequently when indicators of impairment exist.

The assessment of impairment conducted in the first quarter of fiscal year 2003, the quarter Quantum adopted SFAS No. 142, required Quantum to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. The fair values of the reporting units underlying the Storage Solutions group were estimated using both a discounted cash flow and market approach methodology. The reporting units' carrying amounts exceeded their fair values, indicating that the reporting units' goodwill was impaired, therefore requiring Quantum to perform the second step of the transitional impairment test. In the second step, Quantum compared the implied fair values of the reporting units' goodwill, determined by allocating the reporting units' fair values to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, *Business Combinations*.

Upon adoption of SFAS No. 142 in the first quarter of fiscal year 2003, Quantum recorded a non-cash accounting change adjustment of $94.3 million, reflecting a reduction to the carrying value of its goodwill, as a cumulative effect of an accounting change in the accompanying condensed consolidated statements of operations.

Note 4, '*Goodwill and Intangible Assets'*, provides additional discussion on the impact to Quantum's financial statements as a result of applying SFAS No. 141 and SFAS No. 142.

Note 4: Goodwill and Intangible Assets

As a result of adopting SFAS No. 142, *Goodwill and Other Intangible Assets,* on April 1, 2002, Quantum recorded an accounting change adjustment of $94.3 million in the first quarter of fiscal year 2003 and a goodwill impairment charge of $58.7 million in the second quarter of fiscal year 2003 related to the Storage Solutions group. The impairment charge recorded in the second quarter of fiscal year 2003 was mainly due to a re-evaluation of the Storage Solutions group in light of deterioration in the market values of comparable companies, and to a lesser extent, a reduction in anticipated future cash flows. The fair value of the Storage Solutions group was calculated using a combination of a discounted cash flow analysis involving projected data and a comparable market approach, which involved a comparison with companies also in the tape automation business.

As required by SFAS No. 142, intangible assets that do not meet the criteria for recognition apart from goodwill must be reclassified. In applying this criteria, Quantum transferred $1.8 million of net assembled workforce from intangible assets to goodwill in the first quarter of fiscal year 2003, consisting of $2.9 million of assembled workforce, partially offset by an associated deferred tax amount of $1.1 million. Also in accordance with SFAS No. 142, Quantum discontinued the amortization of goodwill effective April 1, 2002 and instead will test it for impairment annually or whenever events or changes in circumstances suggest that the carrying amount may not be recoverable, such as what occurred in the second quarter of fiscal year 2003.

The following financial information reflects consolidated results adjusted as though the accounting for goodwill and intangible assets was consistent in the periods presented:

	Year Ended March 31,		
(in thousands, except per-share amounts)	2002	2001	2000
Reported net income before cumulative effect of an accounting change	$ 42,502	$ 160,686	$ 40,844
Add back goodwill (including assembled workforce) amortization, net of tax	16,053	10,812	10,730
Adjusted net income	$ 58,555	$ 171,498	$ 51,574
Adjusted basic net income per share:			
Reported basic net income per share before cumulative effect of an accounting change	$ 0.27	$ 1.08	$ 0.25
Add back goodwill (including assembled workforce) amortization, net of tax	0.10	0.07	0.06
Adjusted basic net income per share	$ 0.37	$ 1.15	$ 0.31
Adjusted diluted net income per share:			
Reported diluted net income per share before cumulative effect of an accounting change	$ 0.27	$ 1.03	$ 0.24
Add back goodwill (including assembled workforce) amortization, net of tax	0.10	0.07	0.06
Adjusted diluted net income per share	$ 0.37	$ 1.10	$ 0.30

(in thousands, except per-share amounts)	Three Months Ended		Six Months Ended	
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Reported net income (loss) before cumulative effect of an accounting change	$ (111,444)	$ (14,869)	$ (148,029)	$ 63,065
Add back goodwill (including assembled workforce) amortization, net of tax	—	4,015	—	8,030
Adjusted income (loss) before cumulative effect of an accounting change	(111,444)	(10,854)	(148,029)	71,095
Cumulative effect of an accounting change	—	—	(94,298)	—
Adjusted net income (loss)	$ (111,444)	$ (10,854)	$ (242,327)	$ 71,095
Adjusted basic net income (loss) per share:				
Reported basic net income (loss) per share before cumulative effect of an accounting change	$ (0.71)	$ (0.10)	$ (0.94)	$ 0.41
Add back goodwill (including assembled workforce) amortization, net of tax	—	0.03	—	0.05
Cumulative effect of an accounting change	—	—	(0.60)	—
Adjusted basic net income (loss) per share	$ (0.71)	$ (0.07)	$ (1.54)	$ 0.46
Adjusted diluted net income (loss) per share:				
Reported diluted net income (loss) per share before cumulative effect of an accounting change	$ (0.71)	$ (0.10)	$ (0.94)	$ 0.41
Add back goodwill (including assembled workforce) amortization, net of tax	—	0.03	—	0.05
Cumulative effect of an accounting change	—	—	(0.60)	—
Adjusted diluted net income (loss) per share	$ (0.71)	$ (0.07)	$ (1.54)	$ 0.46

The following table provides a summary of the carrying amount of goodwill and includes amounts originally allocated to an intangible asset representing the value of the assembled workforce:

(in thousands)	
Balance as of March 31, 2002	$135,817
Assembled workforce reclassified to goodwill, net (1)	730
Cumulative effect of an accounting change (2)	(67,900)
Balance as of June 30, 2002	68,647
Goodwill impairment	(58,689)
Balance as of September 29, 2002	$ 9,958

(1) Excludes $1.057 million related to the NAS business, which has been classified as discontinued operations.
(2) Excludes $26.398 million related to the NAS business, which has been classified as discontinued operations.

The following tables provide a summary of the carrying amount of intangible assets that will continue to be amortized and exclude amounts originally allocated to an intangible asset representing the value of the assembled workforce:

	September 29, 2002		
(in thousands)	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 59,000	$ (21,421)	$37,579
Trademarks	20,000	(5,500)	14,500
Non-compete agreements	1,500	(1,500)	—
Customer lists	14,100	(9,162)	4,938
Other	2,500	(2,500)	—
	$ 97,100	$ (40,083)	$57,017

	March 31, 2002		
	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 59,000	$ (17,780)	$41,220
Trademarks	20,000	(4,667)	15,333
Non-compete agreements	1,500	(1,500)	—
Customer lists	14,100	(8,015)	6,085
Other	2,500	(2,153)	347
	$ 97,100	$ (34,115)	$62,985

The total amortization expense related to goodwill and intangible assets is provided in the table below:

(in thousands)	Three Months Ended		Six Months Ended		Amortized by:
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001	
Goodwill	$ —	$ 3,792	$ —	$ 7,586	
Purchased technology	1,821	1,820	3,641	3,636	September 2008
Trademarks	500	330	833	662	September 2008
Assembled workforce	—	223	—	444	
Customer lists	573	573	1,147	1,146	September 2008
Other	139	208	347	417	August 2002
	$ 3,033	$ 6,946	$ 5,968	$ 13,891	

The total expected future amortization related to intangible assets is provided in the table below:

(in thousands)	
Six months ended March 31, 2003	$ 5,996
Fiscal year 2004	11,113
Fiscal year 2005	10,233
Fiscal year 2006	10,233
Fiscal year 2007	8,732
Fiscal year 2008	7,149
Fiscal year 2009	3,561
Total	$ 57,017

Note 5: Inventories

Inventories consisted of the following:

(in thousands)	September 29, 2002	March 31, 2002
Materials and purchased parts	$ 46,334	$ 55,745
Work in process	16,622	19,374
Finished goods	30,293	23,682
	$ 93,249	$ 98,801

Note 6: Service Inventories

Service inventories consisted of the following:

(in thousands)	September 29, 2002	March 31, 2002
Component parts	$ 23,603	$ 16,330
Finished units	28,565	31,957
	$ 52,168	$ 48,287

Note 7: Net Income (Loss) Per Share

The following tables set forth the computation of basic and diluted net income (loss) per share:

	Three Months Ended		Six Months Ended	
(in thousands, except per-share data)	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Loss from continuing operations	$ (92,069)	$ (9,125)	$ (119,401)	$ (40,339)
Income (loss) from discontinued operations	(19,375)	(5,744)	(28,628)	103,404
Cumulative effect of an accounting change	—	—	(94,298)	—
Net income (loss)	$ (111,444)	$ (14,869)	$ (242,327)	$ 63,065
Loss per share from continuing operations	$ (0.59)	$ (0.06)	$ (0.76)	$ (0.26)
Income (loss) per share from discontinued operations	(0.12)	(0.04)	(0.18)	0.67
Cumulative effect per share of an accounting change	—	—	(0.60)	—
Basic and diluted net income (loss) per share	$ (0.71)	$ (0.10)	$ (1.55)	$ 0.41
Weighted average shares outstanding used in computing basic and diluted net income per share	156,932	155,545	156,687	155,383

The computations of diluted net income (loss) per share for the periods presented excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of Quantum common stock (21.587 shares per $1,000 note), because the effect would have been antidilutive.

Options to purchase 37.5 million shares and 27.8 million shares of Quantum common stock were outstanding at September 29, 2002, and September 30, 2001, respectively, but were not included in the computation of diluted net income (loss) per share for the three and six month-periods ending September 29, 2002, and September 30, 2001, respectively, because the effect would have been antidilutive.

Note 8: Common Stock Repurchase

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to $700 million of its common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of Quantum, DSS or the previously outstanding HDD common stock. An additional $100 million was authorized solely for repurchase of the previously outstanding HDD common stock.

There were no shares of Quantum common stock repurchased in the six months ended September 29, 2002. Since the beginning of the stock repurchase authorization through September 29, 2002, Quantum has repurchased a total of 8.6 million shares of Quantum common stock (including 3.9 million shares that were outstanding prior to the issuance of the DSS and HDD common stocks), 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for an aggregate total of $612.1 million. At September 29, 2002, there was approximately $87.9 million remaining authorized to repurchase Quantum common stock.

Note 9: Credit Agreements, Short-Term Debt and Convertible Subordinated Debt

Quantum's debt includes the following:

(in thousands)	September 29, 2002	March 31, 2002
Convertible subordinated debt	$ 287,500	$287,500
Short-term debt (M4 Data (Holdings) Ltd. debentures)	3,097	41,363
	$ 290,597	$328,863
Weighted average interest rate	6.98%	6.75%

Convertible subordinated debt

In July 1997, Quantum issued $287.5 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of Quantum common stock and Maxtor common stock. The notes are classified as long-term. The notes are convertible into 6,206,152 shares of Quantum common stock (or 21.587 shares per $1,000 note), and 4,716,676 shares of Maxtor common stock (or 16.405 shares per $1,000 note). Quantum recorded a receivable from Maxtor of $95.8 million for the portion of the debt previously attributed to the HDD group and for which Maxtor has agreed to reimburse Quantum for both principal and associated interest payments. Although Quantum believes the $95.8 million due from Maxtor will ultimately be realized, if Maxtor were for any reason unable or unwilling to pay such amount, Quantum would be obligated to pay this amount and record a loss with respect to this amount in a future period. Quantum may redeem the notes at any time. In the event of certain changes involving all or substantially all of Quantum's common stock, the holder would have the option to require Quantum to redeem the notes. Redemption prices range from 101% of the principal to 100% at maturity.

The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness. The notes do not contain financial covenants or cross default provisions.

Short-term debt (M4 Data (Holdings) Ltd. debentures)

Quantum acquired all the outstanding stock of M4 Data (Holdings) Ltd. on April 12, 2001, for approximately $58.0 million in consideration, including $41.3 million in debentures. The debenture holders called and received payment from Quantum for $38.7 million in the first quarter of fiscal year 2003 and Quantum has received notification from the holders stating their intention to call an additional $2.6 million by the end of the third quarter of fiscal year 2003. The purchase agreement also included additional contingent consideration to be paid annually from 2002 through 2005 based on future revenues, which may result in additional debentures being issued. Additional debentures of $0.4 million were issued in the second quarter of fiscal year 2003 based on fiscal year 2002 revenues.

The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness. The debentures do not contain financial covenants, reporting covenants or cross default provisions.

Credit line

In April 2000, Quantum entered into an unsecured senior credit facility with a group of nine banks, providing a $187.5 million revolving credit line that expires in April 2003. As of September 29, 2002, $38.2 million is committed to a standby letter of credit. Borrowings under the revolving credit line bear interest at either the London interbank offering rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. The credit facility contains certain financial and reporting covenants, which Quantum is required to satisfy as a condition of the credit line. There is also a cross default provision between this facility and the operating lease facility (see note 17, '*Commitments and Contingencies*') such that a default on one facility constitutes a default on the other facility. During the fourth quarter of fiscal year 2002, these covenants were amended to allow a write-down of goodwill of up to $175 million upon adoption of SFAS No. 142 in the first quarter of fiscal year 2003. At September 29, 2002, there was no outstanding balance drawn on this credit facility.

On August 9, 2002, Quantum received a waiver from the bank group for the covenants violated as of June 30, 2002. During the quarter ended September 29, 2002, Quantum violated the Tangible Net Worth, Leverage Ratio and EBITDA financial covenants of the credit line. On October 25, 2002, Quantum received a waiver of these covenant violations from the bank group for the quarter ended September 29, 2002. The financial covenants were not amended and Quantum is required to satisfy these covenants in subsequent quarters to obtain access to the line of credit. The waivers disallow any new borrowings or new letters of credit to be issued until Quantum is in compliance with the financial and reporting covenants or obtains approval of such new borrowings or new letters of credit from the majority of the banks participating in the line of credit.

Note 10: Litigation

On August 7, 1998, Quantum was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns numerous United States patents, which Papst alleges are infringed by hard disk drive products that were sold by HDD. In October 1999 the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with other lawsuits involving Papst for purposes of coordinated discovery under multi-district litigation rules. The other lawsuits have Maxtor, Minebea Limited, and IBM as parties.

Quantum currently cannot estimate the extent of the potential damages in the Papst dispute against it because the complaint by Papst asserts an unspecified amount of damages. As part of Quantum's disposition of HDD to Maxtor, Maxtor has agreed to assume defense of Papst claims against HDD and has also agreed to indemnify Quantum in this litigation going forward. Nevertheless, if Maxtor were unable for any reason to indemnify Quantum in accordance with the merger agreement, the outcome of this litigation would be uncertain, not estimable and Quantum's liability, if Papst prevails and Maxtor cannot indemnify Quantum, could have a materially adverse impact on Quantum's results of operations and financial position.

Note 11: Special Charges

Fiscal year 2003 special charges

DLT group ("DLTG") cost reductions

In the second quarter of fiscal year 2003, a charge of $3.2 million was recorded to reduce DLTG's costs through a headcount reduction. The charge relates to severance benefits for approximately 75 employees.

Storage Solutions group ("SSG") cost reductions

In the first quarter of fiscal year 2003, a charge of $1.1 million was recorded to reduce SSG's costs with the integration of sales and marketing activities within Quantum's Storage Solutions group. The charge primarily relates to severance benefits for approximately 30 employees who were terminated or have been notified they will be terminated as a result of this restructuring plan.

In the second quarter of fiscal year 2003, a charge of $7.2 million was recorded to reduce SSG's costs and the actions include outsourcing sub-assembly manufacturing of Quantum's P-Series enterprise tape libraries, consolidating the number of research and development sites for disk-based backup and tape automation, and centralizing sales and marketing support functions. The charge reflects severance benefits for approximately 140 employees, fixed asset write-offs and vacant facility charges.

Corporate severance

In the second quarter of fiscal year 2003, a charge of $3.7 million was recorded primarily for separation costs related to Quantum's former Chief Executive Officer, who remains as Quantum's Chairman of the Board of Directors.

European operations reorganization

In the first quarter of fiscal year 2003, Quantum reversed a charge of $0.4 million on its statement of operations related to special charges recorded in the second quarter of fiscal year 2002 for the closure of its Geneva, Switzerland sales office. Quantum reversed the special charge because the landlord was able to re-lease the space to a new tenant on terms more favorable than originally anticipated.

Fiscal year 2002 special charges

In the first quarter of fiscal year 2002, Quantum recorded $45.0 million of special charges related to its overall operations. These charges consisted of stock compensation and severance charges related to the disposition of HDD, restructuring costs incurred in order to align resources with the requirements of Quantum's ongoing operations, and other cost reduction activities.

The charges are described in more detail below.

Stock Compensation Charges

Stock compensation charges of $16.4 million were incurred in the first quarter of fiscal year 2002. Of this $16.4 million, Quantum expensed stock compensation of $13.9 million related to the conversion of vested HDD options into vested DSS options for employees remaining with Quantum. In addition, Quantum recorded $2.5 million of stock compensation in connection with certain corporate employees who were terminated at the HDD disposition date and whose unvested HDD and DSS stock options and HDD restricted stock converted into shares of DSS restricted stock. The classification of these stock compensation charges as special charges rather than cost of revenue or operating expenses was based on two factors: the unusual and non-recurring nature of the event (i.e., the disposition of the HDD business) that gave rise to stock awards and stock award modifications; and the fact that the stock award was vested and did not have to be earned over a future service period.

Corporate Severance Charges

Severance charges of $8.7 million were incurred in the first quarter of fiscal year 2002 for the termination of corporate employees as a result of the disposition of HDD.

Restructuring and Other Costs

Approximately $19.9 million of special charges were incurred in the first quarter of fiscal year 2002 related to:

- Staff reductions and other costs associated with cost saving actions in tape automation system activities ($13.6 million), which were comprised of severance costs of $2.3 million; vacant facilities costs of $3.9 million for facilities in Irvine, California; sales and marketing demonstration equipment of $6.3 million; and contract cancellation fees of $1.1 million;
- Vacant facilities costs in Shrewsbury, Massachusetts, and Boulder, Colorado ($3.4 million);
- Costs associated with discontinuing solid state storage systems, product development and marketing, comprised primarily of severance costs and fixed asset write-offs ($2.2 million); and
- Other costs ($0.7 million).

In the second quarter of fiscal year 2002, Quantum announced a restructuring of its DLTtape business. This restructuring resulted in the transfer of the remaining tape drive production in Colorado Springs, Colorado, to Penang, Malaysia. Additional special charges were recorded related to the closure of European distributor operations based in Geneva, Switzerland. As a result of these restructurings, Quantum recorded a combined special charge of $17.0 million in the second quarter of fiscal year 2002.

The special charge of $16.4 million that was recorded related to the transfer of tape drive production from Colorado Springs, Colorado, to Penang, Malaysia, consisted of the following:

- Severance and benefits costs of $8.7 million representing severance for 350 employees;
- Vacant facilities costs of $4.3 million in Colorado Springs, Colorado; and
- Write-off of fixed assets and leasehold improvements of $3.4 million.

A special charge of $0.6 million was recorded related to the closure of Quantum's Geneva, Switzerland sales office, reflecting vacant facilities costs.

The following two tables show the activity for the six-month period ended September 29, 2002 and the estimated timing of future payouts for the following major cost reduction projects (for a complete discussion of Quantum's special charge activity, refer to note 10 in Quantum's Annual Report on Form 10-K for the year ended March 31, 2002):

- Discontinuation of Manufacturing in Colorado Springs; and
- Other Restructuring Programs.

Discontinuation of Manufacturing in Colorado Springs

(in thousands)	Severance	Facilities	Total
Balance March 31, 2002	**$ 2,210**	**$16,240**	**$ 18,450**
Cash payments	(1,397)	(1,155)	(2,552)
Balance June 30, 2002	**813**	**15,085**	**15,898**
Cash payments	(813)	(1,155)	(1,968)
Balance September 29, 2002	**$ —**	**$13,930**	**$ 13,930**
Estimated timing of future payouts:			
3rd Quarter of Fiscal Year 2003	$ —	$12,390	$ 12,390
4th Quarter of Fiscal Year 2003	—	1,155	1,155
Fiscal Year 2004	—	385	385
Total	**$ —**	**$13,930**	**$ 13,930**

The cash payments in the three months ended September 29, 2002 represented severance payments of $0.8 million and lease payments of $1.2 million for vacant facilities. The remaining special charge accrual related to facilities reflects a vacant space accrual of $2.7 million, which will be paid over the respective lease terms through the first quarter of fiscal year 2004, and a contingent lease obligation of $11.2 million. This contingent lease obligation reflects the difference between the current estimated market value of vacant facilities in Colorado Springs and the value guaranteed by Quantum to the lessor at the end of the lease term and will be paid to the lessor in the third quarter of fiscal year 2003. The charge related to the contingent lease obligation is further explained in Note 17, '*Commitments and Contingencies',* to the condensed consolidated financial statements.

Other Restructuring Programs

(in thousands)	Severance	Fixed assets	Facilities	Other	Total
Balance at March 31, 2002	**$ 2,127**	**$ —**	**$2,395**	**$1,255**	**$ 5,777**
SSG Provision	963	106	—	—	1,069
Cash payments	(1,710)	—	(116)	(150)	(1,976)
Non-cash charges	—	(106)	—	—	(106)
Restructuring charge benefit	—	—	(445)	—	(445)
Balance at June 30, 2002	**1,380**	**—**	**1,834**	**1,105**	**4,319**
DLTG cost reduction	3,238	—	—	—	3,238
Corporate separation	3,700	—	—	—	3,700
SSG cost reduction	4,965	824	1,369	—	7,158
Cash payments	(1,090)	—	(173)	—	(1,263)
Non-cash charges	—	(824)	—	—	(824)
Balance at September 29, 2002	**$12,193**	**$ —**	**$3,030**	**$1,105**	**$16,328**
Estimated timing of future payouts:					
3rd Quarter of Fiscal Year 2003	$ 6,318	$ —	$ 155	$1,105	$ 7,578
4th Quarter of Fiscal Year 2003	5,316	—	249	—	5,565
Fiscal Year 2004	559	—	918	—	1,477
Fiscal Year 2005 onward	—	—	1,708	—	1,708
Total	**$12,193**	**$ —**	**$3,030**	**$1,105**	**$16,328**

The cash payments in the three months ended September 29, 2002 represented severance payments of $1.1 million and lease payments of $0.2 million for vacant facilities. The $16.3 million remaining special charge accrual at September 29, 2002 is comprised mainly of obligations for severance, vacant facilities and contract cancellation fees. The severance charges will mainly be paid over the remainder of fiscal year 2003; the facilities charges relate to vacant facilities in Irvine, California, and will be paid over the respective lease term through the third quarter of fiscal year 2006; the contract cancellation fees are expected to be paid by the fourth quarter of fiscal year 2003.

Note 12: Comprehensive Income (Loss)

Total comprehensive income (loss), net of tax, for the three and six-month periods ended September 29, 2002, and September 30, 2001, is presented in the following table:

	Three Months Ended		Six Months Ended	
(in thousands)	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Net income (loss)	$ (111,444)	$ (14,869)	$ (242,327)	$ 63,065
Foreign currency translation adjustment	(108)	498	1,214	848
Total accumulated other comprehensive income (loss)	$ (111,552)	$ (14,371)	$ (241,113)	$ 63,913

Note 13: Business Segment Information

Quantum's reportable segments are DLTG and SSG. These reportable segments are managed separately and they manufacture and distribute distinct products with different production processes. DLTG consists of tape drives and media. SSG consists of tape automation systems and service. The financial information of Quantum's NAS business, a discontinued operation, has been removed from SSG's segment information in the table below. Quantum directly markets its products to computer manufacturers and through a broad range of distributors, resellers and systems integrators.

The accounting policies for the reportable segments are the same as those described in the summary of significant accounting policies in Quantum's Annual Report on Form 10-K for the year ended March 31, 2002. Quantum evaluates segment performance based on operating income (loss) excluding special charges, write-downs and gains or losses that are considered to be unusual or non-recurring. Quantum does not allocate interest income or interest expense, other income, or taxes to operating segments. Additionally, Quantum does not allocate all assets by operating segment, only the assets included in the table below.

	Three Months Ended					
	September 29, 2002			September 30, 2001		
(in thousands)	DLTG	SSG	Total	DLTG	SSG	Total
Total Revenue	$162,944	$ 51,135	$214,079	$216,846	$ 60,345	$277,191
Inter-segment revenue	(9,626)	—	(9,626)	(10,852)	—	(10,852)
Revenue from external customers	153,318	51,135	204,453	205,994	60,345	266,339
Cost of revenue	107,634	37,209	144,843	137,813	39,252	177,065
Gross margin	45,684	13,926	59,610	68,181	21,093	89,274
Research and development	20,113	9,272	29,385	20,175	7,312	27,487
Sales and marketing	13,269	13,776	27,045	15,120	11,775	26,895
General and administrative	10,705	6,947	17,652	13,834	9,755	23,589
Total operating expenses	44,087	29,995	74,082	49,129	28,842	77,971
Income (loss) from operations	$ 1,597	$ (16,069)	$ (14,472)	$ 19,052	$ (7,749)	$ 11,303

	Six Months Ended					
	September 29, 2002			September 30, 2001		
(in thousands)	DLTG	SSG	Total	DLTG	SSG	Total
Total Revenue	$322,570	$101,144	$423,714	$436,027	$118,775	$554,802
Inter-segment revenue	(16,811)	—	(16,811)	(24,007)	—	(24,007)
Revenue from external customers	305,759	101,144	406,903	412,020	118,775	530,795
Cost of revenue	213,578	71,126	284,704	255,557	75,532	331,089
Gross margin	92,181	30,018	122,199	156,463	43,243	199,706
Research and development	37,534	17,477	55,011	43,431	14,331	57,762
Sales and marketing	25,111	28,024	53,135	33,814	24,881	58,695
General and administrative	25,943	13,771	39,714	29,589	20,304	49,893
Total operating expenses	88,588	59,272	147,860	106,834	59,516	166,350
Income (loss) from operations	$ 3,593	$ (29,254)	$ (25,661)	$ 49,629	$ (16,273)	$ 33,356

	As of					
	September 29, 2002			March 31, 2002		
	DLTG	SSG	Total	DLTG	SSG	Total
Accounts receivable, net	$ 80,625	$ 39,719	$120,344	$ 94,351	$ 55,073	$149,424
Inventories	47,677	45,572	93,249	71,410	27,391	98,801
Service inventories	40,768	11,400	52,168	37,096	11,191	48,287
Property, plant and equipment, net	50,838	15,886	66,724	57,942	18,463	76,405
Goodwill and intangibles, net	—	66,975	66,975	—	200,122	200,122

Note 14: Business Combinations

M4 Data (Holdings) Ltd

On April 12, 2001, Quantum completed the acquisition of M4 Data (Holdings) Ltd. ("M4 Data"), a privately held data storage company based in the United Kingdom. M4 Data provided high performance and scalable tape automation products for the data storage market. The acquisition was accounted for as a purchase at a total cost of approximately $58.0 million.

Under the terms of the agreement, Quantum acquired all the outstanding stock of M4 Data in consideration for approximately $58.0 million, which consisted of $15.2 million in cash proceeds, the assumption by Quantum of $41.4 million in debentures and $1.4 million in acquisition-related costs. In the first quarter of fiscal year 2003, the holders called and received payment from Quantum for $38.7 million of the debentures, and Quantum has received notification from the holders stating their intention to call an additional $2.6 million of the debentures by the end of the third quarter of fiscal year 2003. The purchase agreement also includes additional contingent consideration to be paid annually by Quantum from 2002 through 2005 based on future revenues, which may result in additional debentures being issued. Additional debentures of $0.4 million were issued in the second quarter of fiscal year 2003 based on fiscal year 2002 revenues.

M4 Data's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to Quantum's financial position or results of operations.

The purchase price has been allocated based on the estimated fair value of net tangible and intangible assets acquired, assumed liabilities, and in-process research and development. As of the acquisition date, the in-process technology was deemed to have no alternative future use. Therefore, Quantum expensed $13.2 million of the purchase price as in-process research and development in fiscal year 2002. The intangible assets are being amortized on a straight-line basis over periods ranging from three to six years.

The amount of the purchase price allocated to in-process research and development was determined based on the estimated stage of development of each in-process research and development project at the date of acquisition and estimated cash flows resulting from the expected revenue generated from such projects, with the net cash flows discounted to present value at a discount rate of 34%, which represented a premium to Quantum's cost of capital.

Connex Inc.

On August 8, 2001, Quantum completed the acquisition of certain assets of Connex Inc., a wholly owned subsidiary of Western Digital Corporation. Connex is a provider of network attached storage products. The acquisition has been accounted for as a purchase at a total cost of approximately $11.6 million.

Under the terms of the agreement, Quantum acquired complementary technology, intellectual property and other assets of Connex for approximately $11.6 million in cash.

Connex's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to Quantum's financial position or results of operations.

The purchase price has been allocated based on the estimated fair value of net tangible and intangible assets acquired and assumed liabilities as well as in-process research and development costs. As of the acquisition date, technological feasibility of the in-process technology has not been established and the technology has no alternative future use. Therefore, Quantum expensed approximately $3.3 million of the purchase price as in-process research and development in the second quarter of fiscal year 2002.

The amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using a 25% discount rate, which represents a premium to Quantum's cost of capital. The expected revenue assumes a six-year compound annual growth rate of 59.8% during fiscal years 2003 through 2008. Expected revenue from the purchased in-process projects grows from approximately $18 million in 2003 to $24 million in 2005, and then, as other new products and technologies are expected to enter the market, declines to $5 million in 2008. These projections are based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions.

Connex's results of operations from the date of acquisition and the assets and liabilities acquired were part of Quantum's NAS business, which was sold in October 2002 and which is therefore accounted for in discontinued operations.

Note 15: Stock Incentive Plans

Quantum has Stock Option Plans (the "Plans") under which 6.7 million options of Quantum stock were reserved for future issuance at September 29, 2002, to employees, officers and directors of Quantum. Options under the Plans are granted at prices determined by the Board of Directors, but at not less than the fair market value of the underlying common stock on the date of grant. Options currently expire no later than ten years from the date of grant and generally vest ratably over one to four years.

A summary of activity relating to Quantum's stock incentive plans follows:

	Shares (000s)	Weighted Average Exercise Price
Outstanding at March 31, 2002	27,590	$ 10.51
Granted	15,055	$ 4.52
Canceled	(4,505)	$ 11.60
Exercised	(607)	$ 2.21
Outstanding at September 29, 2002	37,533	$ 8.09
Exercisable at September 29, 2002	16,331	$ 10.19

The following tables summarize information about options outstanding and exercisable at September 29, 2002:

Range of Exercise Prices	Shares Outstanding at September 29, 2002 (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$ 0.01 – $ 2.97	7,841	$ 2.31	9.58
$ 2.98 – $ 6.70	8,321	$ 6.50	8.91
$ 6.75 – $ 9.56	8,794	$ 8.77	6.58
$ 9.60 – $10.93	5,700	$ 10.07	8.68
$11.25 – $24.11	6,877	$ 14.11	6.49
	37,533	$ 8.09	8.03

Range of Exercise Prices	Shares Exercisable at September 29, 2002 (000s)	Weighted Average Exercise Price
$ 0.01 – $ 2.97	601	$ 2.16
$ 2.98 – $ 6.70	1,820	$ 5.92
$ 6.75 – $ 9.56	6,615	$ 8.73
$ 9.60 – $10.93	2,210	$ 10.07
$11.25 – $24.11	5,085	$ 14.62
	16,331	$ 10.19

Note 16: Investments in Other Entities

(in thousands)	September 29, 2002	March 31, 2002
Venture capital equity investments	$ —	$28,383
Other equity investments	11,371	11,805
	$ 11,371	$40,188

Investments in those entities in which Quantum owns less than 20%, or is unable to exert significant influence, are carried at cost less write-downs for declines in value that are judged to be other-than-temporary. Investments in entities in which Quantum owns more than 20%, or is able to exert significant influence, are accounted for under the equity method.

During the three months ended June 30, 2002, Quantum recorded a loss of $17.1 million to write-down its venture capital equity investments to a net realizable value of $11.0 million, based on other than temporary declines in the estimated value of these investments. During the second quarter of fiscal year 2003, Quantum sold its entire portfolio of venture capital equity investments for $11.0 million. In determining net realizable value in previously reported periods, Quantum utilized all information available regarding the entities in which it held an interest. This information included knowledge of each company's business model, management team, competition, progress against technical and operational milestones, financial statements and financing requirements, and independent valuations. In addition, when a portfolio investment completed a financing transaction that provided an indication of the company's value, Quantum wrote-down the carrying value of its investment to the lower of carrying value or the value indicated by the financing. Similarly, if an investment in one of Quantum's portfolio companies were to be sold in the secondary market rather than held until the investment could be traded on a public exchange or acquired, the investment would be marked to a value that was estimated to be realizable in the secondary market.

An investment in Benchmark Storage Innovations ("Benchmark") accounts for $11.3 million of the $11.4 million of other equity investments and Quantum has agreed to acquire the outstanding shares of Benchmark that it does not already own. Refer to note 19, '*Subsequent Events'*, for a discussion on the proposed purchase of the remaining shares of Benchmark.

Note 17: Commitments and Contingencies

Commitments

In August 1997, Quantum entered into a five-year lease agreement with a group of financial institutions (the "lessor") for the construction and lease of a campus facility in Colorado Springs, Colorado, comprised of three buildings. The campus became the center of the DLT group's operations up until the transfer in fiscal year 2002 of tape drive production to Penang, Malaysia. The Colorado Springs facility now houses only administrative and procurement resources and testing operations within one of the three buildings. The lease has been accounted for as an operating lease in accordance with SFAS No. 13, *Accounting for Leases.*

The lease has a term of five years, which expires in April 2003. The total minimum lease payments from the third quarter of fiscal year 2003 until the scheduled expiration date in April 2003 are estimated to be approximately $1.2 million and approximate the lessor's debt service costs. The minimum lease payments will fluctuate depending on short-term interest rates.

At the end of the lease term, Quantum may exercise its option to do any of the following:

- Refinance the lease;
- Purchase the facility; or
- Arrange for the leased facility to be sold to a third party with Quantum retaining an obligation to the lessor for the $62.8 million value guaranteed by Quantum to the lessor at the end of the lease term. The proceeds of a sale to a third party would have to be used to satisfy the $62.8 million obligation to the lessor.

Quantum completed a third party valuation appraisal of the leased facilities in the fourth quarter of fiscal year 2002, which indicated a contingent lease obligation of approximately $12.5 million. Of this $12.5 million total, Quantum recorded a charge of $11.2 million, which reflects the difference between the current estimated market value of vacant facilities in Colorado Springs and the value guaranteed by Quantum to the lessor at the end of the lease term. The remaining $1.3 million relates to the portion of the facilities that Quantum still occupies, which is being amortized over the remaining lease period. The future minimum lease payments stated above exclude any payments required at the end of the lease term.

The lease requires Quantum to maintain specific financial covenants. There is a cross default provision between this facility and the credit line facility (refer to note 9,*'Credit Agreements, Short-Term Debt and Convertible Subordinated Debt*') such that a default on one facility constitutes a default on the other facility. On August 9, 2002, Quantum received a waiver from the lessor relating to Quantum's covenant violations as of June 30, 2002. On October 25, 2002, Quantum received a waiver from the lessor relating to Quantum's violation of the Tangible Net Worth, Leverage Ratio and EBITDA financial covenants for the quarter ending September 29, 2002. The financial covenants were not amended and Quantum is required to satisfy these covenants in subsequent quarters. As part of the waiver agreement, Quantum has agreed to pay $12.5 million to the lessor in the third quarter of fiscal year 2003, which is the difference between the current estimated market value of the facilities and the value guaranteed by Quantum to the lessor at the end of the lease term of $62.8 million. If in the future Quantum fails to comply with these financial covenants, and is unable to obtain a waiver, the lessor could terminate the lease, resulting in either the acceleration of the obligation to purchase the leased facility or Quantum having to sell the leased facility. Quantum believes it will be successful in obtaining waivers or amendments in future quarters through the end of the lease term in April 2003 or that it will be successful in obtaining a new facility replacing the existing one. However, Quantum cannot give assurance that it will be successful in obtaining a new facility or that it will not violate the financial covenants in the future, or, if Quantum does violate them, that it will be able to obtain waivers for such violations in the future. Quantum has the right to prepay this lease without penalty or adverse consideration. If required, Quantum believes it has sufficient financial resources to satisfy the guaranteed value by arranging for the sale of this facility at a price approximating its recently appraised value and paying the remaining obligation out of existing cash balances.

Contingencies

Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute. This agreement between Quantum and Maxtor entered into in connection with the disposition of HDD, provided for the allocation of certain liabilities related to taxes and the indemnification by Maxtor of Quantum with respect to certain liabilities relating to taxes and attributable to the conduct of business prior to the disposition of HDD. Maxtor and Quantum presently disagree as to the amounts owed under this agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that Quantum will be successful in asserting its position. If disputes under this agreement cannot be resolved favorably, Quantum may incur significant liabilities and costs to litigate and/or settle these disputes, which could have a material and adverse effect on its results of operations and financial condition.

Quantum has recorded a receivable of $95.8 million from Maxtor for the portion of the convertible subordinated debt previously attributed to HDD and for which Maxtor has agreed to reimburse Quantum for both principal and associated interest payments under the indemnity agreement. Although Quantum believes the $95.8 million due from Maxtor will ultimately be realized, if Maxtor were for any reason unable or unwilling to pay such amount, Quantum is obligated to pay this amount and would record a loss with respect to this amount in a future period, which would have a material adverse effect on its results of operations and financial condition.

Quantum has signed an agreement to outsource its manufacturing operations in Malaysia to a third party contract manufacturer (refer to note 19, *'Subsequent Events'*), which has the potential to affect Quantum's tax status in Malaysia. Quantum was granted strategic pioneer tax status beginning in December 2000 contingent on Quantum meeting five separate conditions linked to investments in the Malaysian economy. While Quantum has actively worked to meet each of these conditions, changes in the business environment have meant that Quantum has not yet fully met these conditions as these conditions assumed a five-year profile of investment. Based on the status of current discussions with the Malaysian government, Quantum believes that the probability of assessment of additional tax liability is unlikely given that the third-party contract manufacturer already has strategic pioneer tax status and since there is no change in Quantum's business as a result of this transfer of manufacturing operations. Were the Malaysian government to revoke Quantum's strategic pioneer tax status in its entirety, then the maximum potential tax liability that could be assessed would be $15 million.

Note 18: Recent Accounting Pronouncements

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"*. This statement supercedes EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. This statement is effective prospectively for exit or disposal activities initiated after December 31, 2002. Quantum is in the process of the evaluating the financial statement impact, if any, of adoption of SFAS No. 146.

Note 19: Subsequent Events

Acquisition of Benchmark Storage Innovations

On September 5, 2002, Quantum signed a definitive agreement to acquire the remaining outstanding shares of Benchmark Storage Innovations ("Benchmark"), a privately held supplier of DLTtape drives, media and autoloaders. Quantum currently owns nearly 20% of Benchmark and will pay the other Benchmark shareholders approximately $11.0 million in cash and issue approximately 13.1 million shares of Quantum common stock for the remaining outstanding shares of Benchmark. Quantum will also provide up to 1.9 million additional shares of Quantum common stock to be paid to Benchmark shareholders as additional consideration if certain performance milestones are reached in the first year after the acquisition. The transaction, which is subject to certain conditions, including the receipt of approval from Benchmark's shareholders and applicable regulatory approval, is expected to close during the third quarter of fiscal year 2003. The acquisition will be accounted for as a purchase. Quantum expects to incur a special charge of approximately $3 million in the third quarter of fiscal year 2003, primarily related to severance cost for certain Quantum employees who will be terminated once the agreement closes.

Outsource of certain manufacturing activities to Jabil Circuit Inc.

On August 29, 2002, Quantum signed a definitive agreement to outsource tape drive manufacturing and certain tape automation manufacturing to Jabil Circuit Inc. ("Jabil"). Under the terms of the agreement, Jabil will utilize Quantum's manufacturing facility in Penang, Malaysia and purchase raw materials, work-in-process inventories and production fixed assets from Quantum. The agreement is subject to approval by the Malaysian government and is expected to close during the third quarter of fiscal year 2003. Quantum expects to record a special charge of approximately $5 million in the third quarter of fiscal year 2003, primarily related to severance costs for the approximately 870 employees who will be terminated once the agreement closes.

Disposition of the NAS business

On October 7, 2002, Quantum entered into a definitive agreement to sell certain assets and assign certain contract rights used in the operation of its NAS business to Broadband Storage, Inc. ("Broadband"), a privately held company. The assets sold include inventories, fixed assets and intellectual property. The sale closed on October 28, 2002. The proceeds from the sale consisted of approximately $11 million in cash and securities and the assumption by Broadband of a $1.6 million warranty liability. Quantum expects to record a special charge of approximately $4 million in the third quarter of fiscal year 2003, primarily severance costs for the approximately 50 employees who will be terminated and vacant facility costs.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements usually contain the words "estimate," "anticipate," "expect", "believe" or similar expressions. All forward-looking statements, including, but not limited to, projections or estimates concerning our business, such as demand for our products, anticipated gross margins, operating results and expenses, mix of revenue streams, expected revenue from purchased in-process projects, cost savings, stock compensation, the performance of our media business and the sufficiency of cash to meet planned expenditures, are inherently uncertain as they are based on various expectations and assumptions concerning future events, and they are subject to numerous known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. These forward-looking statements are based on management's current expectations and are subject to certain risks and uncertainties. As a result, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to, (1) the amount of orders received in future periods; (2) our ability to timely ship our products; (3) uncertainty regarding the continued slowdown in IT spending and the corresponding reduction in the demand for DLTtape and Super DLTtape drives and tape automation products; (4) our continued receipt of media royalties from Maxell, Fuji and other media manufacturers; (5) a continued trend toward centralization of storage; (6) our ability to achieve anticipated pricing, cost and gross margin levels, particularly on tape drives, given lower volumes and continuing price and cost pressures; (7) the successful execution of our strategy to expand our businesses into new directions; (8) our ability to successfully introduce new products; (9) our ability to achieve and capitalize on changes in market demand; (10) acceptance of, and demand for, our products; (11) our ability to maintain supplier relationships; (12) our ability to work with industry leaders to deliver integrated business solutions to customers; (13) the ability of our competitors to introduce new products that compete successfully with our products, which could be magnified given the consolidation of our customer base as a result of the Hewlett-Packard and Compaq merger and Hewlett-Packard's participation in the LTO consortium, a tape drive and media format competing with Quantum's Super DLT products; (14) our ability to obtain significant market share with our Super DLT product, given the combined Hewlett-Packard and Compaq's decision to market both the LTO and Super DLT platforms versus Compaq's historical approach of exclusively marketing Super DLT; (15) the general economic environment and the continued growth of the storage industry; (16) our ability to sustain and/or improve our cash and overall financial position; (17) our ability to lower costs and (18) those factors discussed under "Trends and Uncertainties" elsewhere in this Quarterly Report on Form 10-Q. We disclaim any obligation to update information in any forward-looking statement.

BUSINESS DESCRIPTION

Quantum Corporation ("Quantum", the "Company", "us" or "we") (NYSE:DSS), founded in 1980, is a global leader in data protection, meeting the needs of business customers with enterprise-wide storage solutions and services. Quantum is the world's largest supplier of tape drives, and its DLTtape™ technology is the standard for backup, archiving, and recovery of mission-critical data. Quantum is also a leader in the design, manufacture and service of automated tape libraries used to manage, store and transfer data. This year, the company expanded into the area of disk-based backup, with a solution that emulates a tape library and is optimized for data protection.

On August 1, 2002, Quantum named Richard Belluzo as the new chief executive officer of the company effective September 3, 2002. Mr. Belluzo succeeded Michael Brown, who retained the position of chairman of Quantum's board of directors.

Until the beginning of fiscal year 2002, we operated our business through two separate business groups: the DLT & Storage Systems group ("DSS") and the Hard Disk Drive group ("HDD"), which were represented by two classes of Quantum common stock, DSS common stock and HDD common stock, which were intended to track separately the respective businesses. Our stockholders approved the tracking stock structure on July 23, 1999, and on August 3, 1999, each authorized share of Quantum common stock was exchanged for one share of DSS common stock and one-half share of HDD common stock. On March 30, 2001, our stockholders approved the disposition of HDD to Maxtor Corporation ("Maxtor"). On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock. The DSS business now represents Quantum, and as such, DSS is no longer a tracking stock, but is now the only common stock for Quantum Corporation.

Business Summary

Quantum consists of two main business segments: the DLT group and the Storage Solutions group. Our DLT group consists principally of the DLT business. Our Storage Solutions group includes tape automation systems and solutions.

Both business groups experienced declining revenues and lower gross margins in fiscal year 2002 and in the first six months of fiscal year 2003, compared to the previous fiscal year periods. In addition, we incurred losses from continuing operations in fiscal year 2002 and in the first six months of fiscal year 2003. The primary factors driving this trend were the generally weak economic conditions that persisted in fiscal year 2002 and the first six months of the fiscal year 2003, resulting in reduced spending on Information Technology ("IT"), and increased competition from other computer equipment manufacturers. Because of these trends and the reduced corporate infrastructure that we required following the disposition of HDD to Maxtor, which represented a major corporate realignment for Quantum, we have taken numerous cost reduction actions. We can make no assurances that these actions and any future actions we may take will be sufficient to offset the financial impact of declining revenues and lower margins or return our operations to profitability.

Our Network Attached Storage ("NAS") business was sold in October 2002 and was part of our Storage Solutions group. Quantum engaged in the NAS business following the acquisition of Meridian Data Inc., in September 1999 and of certain assets of Connex in April 2001. As a result of this disposition, our financial statements and related footnotes have been restated to present the results of the NAS business as discontinued operations.

DLT Group (DLTG)

In DLTG, we design, develop, manufacture, license, service, and market DLTtape and Super DLTtape drives (collectively referred to as "tape drives"), as well as DLTtape and Super DLTtape media cartridges (collectively referred to as "tape media cartridges"). We earn most of our revenue by selling tape drives and the tape media cartridges used by those drives. In addition, we also earn a significant portion of our revenue from royalties paid to us by manufacturers who license the media cartridge technology from us. Super DLTtape technology has a higher storage capacity and transfer rate than DLTtape technology. Both DLTtape and Super DLTtape products are used to back up large amounts of data stored on network servers. Digital Linear Tape, or DLTtape and Super DLTtape, is our half-inch tape technology that is the leader in mid-range UNIX and NT system backup and archive applications.

DLTtape and Super DLTtape drives store data on DLTtape and Super DLTtape media cartridges, respectively. Historical use of tape drives has shown that drives use many tape media cartridges per year in archival and back-up processes. This historical use suggests that the installed base of tape drives will result in continued demand for tape media cartridges. Our tape media cartridges are manufactured and sold by licensed third-party manufacturers and sold directly by us.

We receive a royalty on tape media cartridges sold by our licensees, which, while resulting in lower revenue per unit than media sold directly by Quantum, generates relatively comparable gross margin dollars. We prefer to have a substantial portion of tape media cartridge sales occur through this license model because this minimizes our operational risks and expenses and provides an efficient distribution channel. Currently, approximately 80% of media unit sales that contribute to our media revenue occur through this license model. We believe that the large installed base of tape drives, and our licensing of tape media cartridges, are of strategic importance to us because they contribute to both our direct sales of tape media cartridges and also provide us with royalty income from our licensing partners. Media royalties have been a primary source of our gross margins, and this trend is expected to continue.

Storage Solutions Group (SSG)

In SSG, we design, develop, manufacture, service, and market tape automation systems and solutions. Our tape automation systems, tape libraries and autoloaders, serve the entire tape library data storage market from desktop computers to enterprise class computers. We offer a broad line of tape automation systems, which are used to manage, store and transfer data in enterprise networked computing environments.

In April 2001, we completed the acquisition of M4 Data (Holdings) Ltd., ("M4 Data") a privately-held data storage company based in the United Kingdom, to leverage M4 Data's complementary products and technologies to enhance the range of storage solutions offered to customers. M4 Data provided high performance and scalable tape automation products for the data storage market.

Products

Our products include:

DLTG:

- **Super DLTtape drives.** We offer tape drive products based on Super DLTtape technology, which are targeted to serve workgroup, mid-range and enterprise business needs. The Super DLT tape drives have a native capacity of up to 160GB (320GB compressed) and a transfer rate of 16MB per second (32MB compressed).
- **DLTtape drives.** The family of DLTtape drives includes drives with up to 40GB of native capacity (80GB compressed) and a sustained data transfer rate of 6MB per second (12MB compressed).
- **Super DLTtape media cartridges.** The Super DLTtape media cartridges are designed and formulated specifically for use with Super DLTtape drives. The capacity of a Super DLTtape media cartridge is up to 160GB (320GB compressed).
- **DLTtape media cartridges.** The DLTtape family of half-inch tape media cartridges is designed and formulated specifically for use with DLTtape drives. The capacity of a DLTtape media cartridge is up to 40GB (80GB compressed).

SSG:

- **Tape automation systems.** We offer a broad line of DLTtape automation systems, tape libraries and autoloaders that support a wide range of back-up and archival needs from workgroup servers to enterprise-class servers. Our tape automation systems range from our tape autoloaders, which accommodate a single DLTtape or Super DLTtape drive, to the ATL P7000 series library, which features Prism Library Architecture™ and can be configured in multiple units to scale up to 245 terabytes of storage capacity. In addition, we offer WebAdmin™, the industry's first Internet browser-based tape library management system, allowing system administrators to monitor widely distributed storage systems at remote locations with point-and-click ease. In fiscal year 2001, we introduced modular automation systems with the ATL M1500. The ATL M1500 is a modular library that is rack mountable and available in increments of two drives and 20 cartridges that easily scale up to 20 drives and 200 cartridges. The next generation M-series product, the ATL M2500, was introduced in the first quarter of fiscal year 2003. The new ATL M2500 library is stackable with up to three modules in a standard rack, and utilizing a Stacklink™ feature, it can provide compressed storage capacity of up to 60 terabytes per rack. We also introduced the first ATL SuperLoader™ tape library in the first quarter of fiscal year 2003. The ATL SuperLoader is a scalable tape autoloader that provides up to 3.5 terabytes of capacity in a 2U rack-mount form factor and is a modular, high-density tape automation solution designed for the workgroup environment. It contains one or two removable active magazines and is available with up to 16 cartridges and a bar code reader for high performance inventory management.
- **Disk Drive Back-up System.** In the second quarter of fiscal year 2003, Quantum introduced the Quantum DX30, an Enhanced Back up Solution (EBS). EBS utilizes disk-based technology to compliment tape libraries. The Quantum DX30 offers data transfer rates in excess of 216GB/hr, 3TB capacity in 4U, and RAID 5 or RAID 10 protected disks. EBS integrates easily with most tape libraries and is universally rack mountable.

For more information about our products, please visit our website at www.quantum.com.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of the financial condition and results of operations is based on the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these statements requires us to make significant estimates and judgments about future uncertainties that affect reported assets, liabilities, revenues and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. Our reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions. In the event that estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. We believe that the following accounting policies require our most difficult, subjective or complex judgments, because of the need to make estimates about the effect of matters that are inherently uncertain. The judgments and uncertainties that affect the application of those policies in particular, could result in materially different amounts being reported under different conditions or using different assumptions.

Revenue Recognition

Revenue from sales of products to original equipment manufacturers ("OEMs") and distributors is recognized when passage of title and risk of ownership are transferred to customers, when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured. In the period when the revenue is recognized, allowances are provided for estimated future price adjustments, such as volume rebates and price protection, and future product returns. Since we have historically been able to reliably estimate the amount of allowances required for future price adjustments and product returns, we recognize revenue, net of projected allowances, upon shipment to our customers.

These allowances are based on the OEMs' and distributors' master agreements, programs in existence at the time the revenue is recognized, historical information, contractual limits and plans regarding price adjustments and product returns. Revenue from distributor arrangements was a significant portion of our total revenue. If we were unable to reliably estimate the amount of future price adjustments and product returns in any specific reporting period, then we would be required to defer recognition of the revenue until the right to future price adjustments and product returns were to lapse and we were no longer under any obligation to reduce the price or take back the product.

Royalty revenue is recognized based on the licensee's sales that incorporate technology licensed from Quantum. Revenue from separately priced extended warranty and product service contracts is deferred and recognized as revenue ratably over the contract period.

Service revenue, earned primarily from on site service and extended warranty contracts, is recognized ratably over the life of the service contract.

Warranty expense and liability

We warrant our products against defects for periods ranging from one to three years. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on our estimates of future failure rates and our estimates of future costs of repair including materials consumed in the repair, and labor and overhead amounts necessary to perform the repair.

The estimates of future product failure rates are based on both historical product failure data and anticipated future failure rates. If future actual failure rates differ from our estimates, we will record the impact in subsequent periods. Similarly, the estimates of future costs of repair are based on both historical data and anticipated future costs. If future actual costs to repair were to differ significantly from our estimates, we would record the impact of these unforeseen costs in subsequent periods.

Inventory Valuation

We value our inventories that are held for resale to customers at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method and includes direct material, direct labor, factory overhead and other direct costs. Market is "net realizable value", which for finished goods and goods in process, is the estimated selling price, less costs to complete and dispose of the inventory. For raw materials, it is replacement cost or the cost of acquiring similar products from our vendors. While cost is readily determinable, estimates of market value involve significant estimates and judgments about the future.

We initially record our inventory at cost and each quarter evaluate the difference, if any, between cost and market. The determination of the market value of inventories is primarily dependent on estimates of future demand for our products, which in turn is based on other market estimates such as technological change, competitor actions and estimates of future selling prices.

We record write-downs for the amount that cost of inventory exceeds our estimated market value. No adjustment is required when market value exceeds cost.

Service Inventories

We value our service inventories at the lower of cost or market. Service inventories consist of both component parts, which are primarily used to repair defective units, and finished units, which are provided for customer use on a temporary or permanent basis while the defective unit is being repaired. Cost is determined by the FIFO method and includes direct material, direct labor, factory overhead and other direct costs. Market is "net realizable value", which, for components, is replacement cost or the cost of acquiring similar products from our vendors. For finished goods, market value is the estimated selling price less costs to complete and dispose of the inventories. While cost is readily determinable, the estimates of market involve significant estimates and judgments about the future.

We carry service inventories because we provide product warranty for one to three years and earn revenue by providing repair service outside this warranty period. We initially record our service inventories at cost and each quarter evaluate the difference, if any, between cost and market. The determination of the market value of service inventories is dependent on estimates, including the estimated amount of component parts expected to be consumed in the future warranty and out of warranty service, the estimated number of units required to meet future customer needs, the estimated selling prices of the finished units, and the estimated useful lives of finished units.

We record write-downs for the amount that cost of service inventories exceeds our estimated market value. No adjustment is required when market value exceeds cost.

Goodwill and Intangible Assets

We have a significant amount of goodwill and intangible assets on our balance sheet related to acquisitions. At September 29, 2002 the net amount of $67.0 million represented 7% of total assets.

As a result of adopting SFAS No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002, we discontinued the amortization of goodwill. Instead, goodwill was reviewed for impairment upon adoption of SFAS No. 142 and will be reviewed annually thereafter, or more frequently when indicators of impairment are present. Refer to note 3 and note 4 of the condensed consolidated financial statements for a discussion of the impact of adopting and applying SFAS No. 142.

Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The acquisition cost is amortized over estimated useful lives, which range from three to ten years. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets.* Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether an impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

The determination of the net carrying value of goodwill and intangible assets and the extent to which, if any, there is impairment are dependent on significant estimates and judgments on our part, including the useful life over which the intangible assets are to be amortized, and the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.

Special Charges

From fiscal year 2000 through the first six months of fiscal year 2003, we recorded significant special charges related to unusual or non-recurring events and the realignment and restructuring of our business operations. These charges represent expenses incurred in connection with certain cost reduction programs that we have undertaken and consist of the cost of involuntary termination benefits, separation benefits, stock compensation charges, facilities charges and other costs of exiting activities. We will record a liability in the period in which management approves a restructuring plan if:

- Management having the appropriate level of authority approves and commits Quantum to the specific exit plan;
- The period of time to complete the plan indicates that significant changes to the plan of termination are not likely; and
- The plan, if it involves terminations, identifies the number of employees and positions to be terminated, and the benefit arrangements are communicated to affected employees.

Only costs resulting from an exit plan that are not associated with, or that do not benefit activities that will be continued, are eligible for recognition as liabilities at the commitment date.

These charges, for both severance and exit costs, require the extensive use of estimates primarily about the number of employees paid severance, the amount of severance and related benefits to be paid, and the cost of exiting facilities, including estimates and assumptions related to future maintenance costs, our ability to secure a sub-tenant (if applicable) and any sublease income to be received in the future. If we fail to make accurate estimates regarding these costs or to complete planned activities timely, we might record additional charges in the future, and might not be permitted to accrue such charges at the time a restructuring plan is approved, but may have to recognize such costs as incurred.

In July 2002, the Financial Accounting Standards Board issued Statement No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This statement supercedes EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity’s commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a “minimum retention period” be recognized over the future service period. This statement is effective prospectively for exit or disposal activities initiated after December 31, 2002.

RESULTS OF OPERATIONS

The results of DLTG and SSG, the two segments that now represent Quantum, are presented as "Results of Continuing Operations". The gain on the disposition of the HDD group to Maxtor on April 2, 2001 and the results of operations of the NAS business, sold on October 28, 2002, are separately presented as "Results of Discontinued Operations".

Results of Continuing Operations

Revenue

	Three Months Ended			
(in thousands)	September 29, 2002	September 30, 2001	Increase, (decrease)	% increase, (decrease)
Tape drives	$ 69,730	$ 125,002	$ (55,272)	(44.2)%
Tape media	48,611	41,449	7,162	17.3%
Tape royalty	44,603	50,395	(5,792)	(11.5)%
DLT group	162,944	216,846	(53,902)	(24.9)%
Storage solutions group	51,135	60,345	(9,210)	(15.3)%
Inter-group elimination*	(9,626)	(10,852)	1,226	11.3%
	$ 204,453	$ 266,339	$ (61,886)	(23.2)%

	Six Months Ended			
(in thousands)	September 29, 2002	September 30, 2001	Increase, (decrease)	% increase, (decrease)
Tape drives	$ 138,789	$ 262,582	$ (123,793)	(47.1)%
Tape media	93,615	68,586	25,029	36.5%
Tape royalty	90,166	104,859	(14,693)	(14.0)%
DLT group	322,570	436,027	(113,457)	(26.0)%
Storage solutions group	101,144	118,775	(17,631)	(14.8)%
Inter-group elimination*	(16,811)	(24,007)	7,196	30.0%
	$ 406,903	$ 530,795	$ (123,892)	(23.3)%

* Represents inter-group sales of tape drives for incorporation into tape automation systems, for which the sales are included in storage solutions revenue.

Revenue in the three months ended September 29, 2002 was $204.5 million compared to $266.3 million in the three months ended September 30, 2001. Revenue in the six months ended September 29, 2002 was $406.9 million compared to $530.8 million in the six months ended September 30, 2001. The overall decreases of 23% for both the three and six-month comparisons, reflected decreased revenue in both the DLTG and SSG segments.

DLTG Revenue

Revenue related to DLTG for the three months ended September 29, 2002 was $162.9 million compared to $216.8 million in the three months ended September 30, 2001, a decrease of $53.9 million. Revenue related to DLTG for the six months ended September 29, 2002 was $322.6 million compared to $436.0 million in the six months ended September 30, 2001, a decrease of $113.5 million. The largest component of the DLTG revenue decrease was a decrease in tape drive revenue, which decreased $55.3 million and $123.8 million, for the three and six-month periods, respectively. In both the three and six-month comparisons, the vast majority of this decline in tape drive revenue was due to lower tape drive unit sales volume and a minor amount due to lower average unit prices.

The decrease in tape drive revenue was affected by several major trends, including:

- A weak IT spending environment particularly in the mid-range server market, which includes servers priced from approximately $5,000 to $100,000. Our tape drives are commonly included as a back-up component to servers and, accordingly, changes in server demand directly impact the demand for our tape products;
- Increased price competition from alternative tape drive vendors and platforms that require Quantum to lower its selling prices to remain competitive; and
- A long-term trend toward networked storage, which enables centralization of storage resources and results in fewer tape drives consumed per server sold.

The increase in tape media revenue in both the three and six-month comparisons reflects a media market sales mix shift from DLTtape media, mostly sold by licensed media manufactures, to Super DLT media, primarily sold directly by Quantum. The increase in tape media revenue was due to higher unit sales volume and higher average unit prices. In the three-month comparison, the vast majority of the increase in tape media revenue was due to higher average unit prices and a minor amount due to higher tape drive unit sales volume. In the six-month comparison, approximately half of the increase in tape media revenue was due to higher average unit prices and the remainder due to higher tape drive unit sales volume. The increases in average unit selling prices reflected the shift towards the higher-priced Super DLT media units. The increases in the unit sales volumes were primarily due to increased sales in Super DLT media units.

The decrease in tape media royalties in both the three and six-month comparisons mainly reflected a decrease in prices of tape media cartridges by licensed media manufacturers for which we earn a royalty based on price. The decrease in the average tape media royalty unit selling prices in both the three and six-month comparisons was due to declining unit prices of DLT tape media units. Sales of Super DLTtape media units were sold primarily by Quantum directly, and therefore the impact of these sales was reflected in higher tape media revenue and not in royalty revenue.

SSG Revenue

The decline in storage solutions revenue of $9.2 million and $17.6 million in the three and six-month comparisons reflected decreased revenue in tape automation systems, caused primarily by a decrease in unit shipments. Unit shipments, in particular unit shipments of high-end tape automation systems, were affected by weak IT spending primarily and increased competition secondarily.

Revenue Outlook

The continued sluggishness in customer buying behavior and overall uncertainty that has characterized the broader IT environment for some time now will continue to affect both DLTG and SSG. We have introduced several new products aimed at delivering improved price/performance, as well as at expanding our markets into segments in which we had not previously participated. We expect these products, including the SDLT320, a new drive with higher capacity and transfer rate relative to competitive offerings, to generate increased revenue over the course of the fiscal year. We also expect the SDLT320 to have a time to market advantage in the tape drive market. While we believe that these new products will show significant sequential quarter over quarter revenue growth, there remain significant risks given a continued difficult IT spending environment.

In addition to the risks that weak IT spending, increased competition and storage centralization may continue or accelerate throughout fiscal year 2003, there is an additional risk factor that could affect our subsequent quarterly revenues—the recent merger of Hewlett-Packard and Compaq. This merger increases the concentration of our sales and dependency on a single customer. Approximately 25% of our revenue is concentrated in this new entity, and therefore could be materially and adversely affected if Hewlett-Packard experiences significant decline in storage revenue due to customer loss or integration issues. This concentration of revenue in one customer creates additional risk since the combined entity owns a competing brand, LTO, of tape drive and media. The combined Hewlett-Packard and Compaq entity has decided to market both the LTO and Super DLT platforms, whereas Compaq had exclusively marketed Super DLT for tape backup and archiving. To the extent that the combined Hewlett-Packard and Compaq entity significantly reduces its purchases of DLT and Super DLT products in favor of LTO products, our tape drive and media revenues, operating results and financial condition would be materially and adversely affected. Conversely, to the extent that the combined Hewlett-Packard and Compaq increases purchases of DLT and Super DLT products, our tape drive and media revenues, operating results and financial condition would be positively affected.

We expect that Quantum revenue in the third quarter of fiscal year 2003 to be at the same level or increased slightly compared to the second quarter of fiscal year 2003. We will not fully benefit from the Benchmark revenue contribution in the third quarter of fiscal year 2003, because the acquisition is not expected to close until the second half of that quarter.

Gross Margin and Gross Margin Rate

	Three Months Ended		
(in thousands)	September 29, 2002	September 30, 2001	% increase, (decrease)
DLTG gross margin	$ 45,684	$ 68,181	$ (22,497)
SSG gross margin	13,926	21,093	(7,167)
Quantum gross margin	$ 59,610	$ 89,274	$ (29,664)
DLTG gross margin rate	29.8%	33.1%	(3.3)%
SSG gross margin rate	27.2%	35.0%	(7.8)%
Quantum gross margin rate	29.2%	33.5%	(4.3)%

	Six Months Ended		
(in thousands)	September 29, 2002	September 30, 2001	% increase, (decrease)
DLTG gross margin	$ 92,181	$ 156,463	$ (64,282)
SSG gross margin	30,018	43,243	(13,225)
Quantum gross margin	$ 122,199	$ 199,706	$ (77,507)
DLTG gross margin rate	30.1%	38.0%	(7.9)%
SSG gross margin rate	29.7%	36.4%	(6.7)%
Quantum gross margin rate	30.0%	37.6%	(7.6)%

DLTG Gross Margin Rate

The DLTG gross margin rate in the three months ended September 29, 2002 decreased to 29.8% from 33.1% in the three months ended September 30, 2001, an overall decrease of 3.3 percentage points. Excluding an inventory write-down of $7.0 million and transition expenses of $1.7 million in the three months ended September 30, 2001, the decrease in gross margin rate was 7.6 percentage points. This gross margin rate decrease mainly reflects lower tape drive prices.

The DLTG gross margin rate in the six months ended September 29, 2002, decreased to 30.1% from 38.0% in the six months ended September 30, 2001. Excluding an inventory write-down of $7.0 million and transition expenses of $1.7 million in the six months ended September 30, 2001, the decrease in gross margin rate was 10.0 percentage points. This gross margin rate decrease mainly reflects lower tape drive prices, which have caused a significant decline in tape drive margins despite our cost reduction efforts. To a lesser extent, another factor contributing to the decreased margin is the media sales mix shift toward increased direct sales of Super DLTtape media resulting in lower media royalties. As a result of competitive pressure, we have offered Super DLTtape drives at prices below where new DLTtape generations have historically been introduced.

A continuation of the current IT spending slump, industry trends toward centralization and continued or accelerating price-based competition in the tape drive market have the potential to lower volumes and revenue for both tape drives and media, including Quantum branded and media royalties. This in turn has the potential to further reduce our gross margin rates.

In the near term, in an attempt to offset negative trends, we will continue efforts to reduce our tape drive bill of material and parts costs through more efficient vendor management. Over the medium term, we are actively working on cost savings activities, including a redesign of our Super DLTtape drives, to further reduce costs and possibly improve gross margins relative to current levels. We cannot give assurance that we can reduce costs soon enough or by a sufficient amount to offset the impact of decreasing unit sales prices or volumes.

SSG Gross Margin Rate

The SSG gross margin rate in the three months ended September 29, 2002, decreased to 27.2% from 35.0% in the three months ended September 30, 2001. The SSG gross margin rate in the six months ended September 29, 2002, decreased to 29.7% from 36.4% in the six months ended September 30, 2001. Lower sales volumes accounted for two-thirds of the lower gross margin rates and lower average unit prices the remainder.

Increased competition for our Storage Solutions group business has the potential to further reduce gross margins, although competitive activity in this market has typically been, and is expected to continue to be, less intense than the tape drive market. We are actively managing our cost structure, vendor base and designs to achieve cost reductions in an effort to improve margin trends.

Gross Margin Rate Outlook

We expect Quantum's overall gross margin rate to remain flat or improve slightly in the near term. However, given the recent trend of declining revenues and margins which, in light of continued economic uncertainty, could continue at least for the remainder of fiscal year 2003, and the fact that we do not expect a rapid recovery in IT spending, we have recognized the need to further reduce our cost structure beyond what we have done in the last year. In the second quarter of fiscal year 2003 we took a significant step towards improving our underlying cost structure by signing a definitive agreement to outsource the manufacturing of our tape drives (refer to note 19, *'Subsequent Events'*). The acquisition of Benchmark, which is expected to close in the third quarter of fiscal year 2003 (refer to note 19, *'Subsequent Events'*), is expected to improve tape drive gross margin rates. We are continuing to analyze ways to improve further our underlying cost structure in both DLTG and SSG as it relates to gross margin rates, and accordingly, expect to undertake additional restructuring efforts in the quarter ending December 29, 2002.

Operating Expenses

	Three Months Ended					
	September 29, 2002		September 30, 2001		Increase/(decrease)	
(dollars in thousands)		% of revenue		% of revenue		% of revenue
DLTG	$44,087	28.8%	$49,129	23.8%	$(5,042)	5.0%
SSG	29,995	58.7%	28,842	47.8%	1,153	10.9%
Total Quantum	$74,082	36.2%	$77,971	29.3%	$(3,889)	6.9%

(dollars in thousands)	Six Months Ended September 29, 2002	% of revenue	September 30, 2001	% of revenue	Increase/(decrease)	% of revenue
DLTG	$ 88,588	29.0%	$106,834	25.9%	$(18,246)	3.1%
SSG	59,272	58.6%	59,516	50.1%	(244)	8.5%
Total Quantum	$147,860	36.3%	$166,350	31.3%	$(18,490)	5.0%

In the six months ended September 30, 2001, $20.1 million of transition expenses were included in the DLTG operating expenses and were classified as follows: $6.2 million in research and development expenses, $3.9 million in sales and marketing expenses, and $10.0 million in general and administrative expenses. These transition expenses include stock compensation expenses, information systems related expenses, facilities related and other expenses incurred related to the disposition of HDD.

Given the recent trend of declining revenues and margins in many of our markets, which, given the continued economic uncertainty, could continue at least for the remainder of fiscal year 2003, and the fact that we do not expect a rapid recovery in IT spending, we recognize the need to further reduce our cost structure and operating expenses beyond what we have achieved in the last year. Therefore, we will continue to evaluate ways to improve our underlying cost structure as it relates to operating expenses, and will include all categories of operating expenses (research and development, sales and marketing, and general and administrative) in this assessment. These steps are expected to result in restructuring charges in the quarter ending December 29, 2002.

Research and Development Expenses

(dollars in thousands)	Three Months Ended September 29, 2002	% of revenue	September 30, 2001	% of revenue	Increase/(decrease)	% of revenue
DLTG	$20,113	13.1%	$20,175	9.8%	$ (62)	3.3%
SSG	9,272	18.1%	7,312	12.1%	1,960	6.0%
Total Quantum	$29,385	14.4%	$27,487	10.3%	$1,898	4.1%

(dollars in thousands)	Six Months Ended September 29, 2002	% of revenue	September 30, 2001	% of revenue	Increase/(decrease)	% of revenue
DLTG	$37,534	12.3%	$43,431	10.5%	$(5,897)	1.8%
SSG	17,477	17.3%	14,331	12.1%	3,146	5.2%
Total Quantum	$55,011	13.5%	$57,762	10.9%	$(2,751)	2.6%

Research and development expenses in the three months ended September 29, 2002 were $29.4 million, or 14.4% of revenue, compared to $27.5 million, or 10.3% of revenue in the corresponding period of fiscal year 2002. Research and development expenses were $55.0 million, or 13.5% of revenue, and $57.8 million, or 10.9% of revenue, in the first six months of fiscal years 2003 and 2002, respectively. The increase in research and development expenses as a percentage of revenue reflected lower revenue for Quantum as a whole and increased spending on research and development for SSG in absolute terms.

DLTG:

The level of research and development spending in DLTG was relatively flat in the three months ended September 29, 2002 compared to the three months ended September 30, 2001. The quarter ended September 30, 2001 included $1.4 million of HDD-related transition expenses.

The level of research and development spending in DLTG decreased $5.9 million to $37.5 million in the six months ended September 29, 2002, compared to $43.4 million in the six months ended September 30, 2001. The six months ended September 30, 2001 included $6.2 million of HDD-related transition expenses.

SSG:

The level of research and development spending in SSG increased $2.0 million and $3.1 million, respectively, in the three and six-month periods ended September 29, 2002 compared to the same periods ended September 30, 2001. These increases were mainly due to product development costs associated with the Quantum SuperLoader and the Quantum DX30, which we have recently introduced in the marketplace.

Sales and Marketing Expenses

	Three Months Ended					
	September 29, 2002		September 30, 2001		Increase/(decrease)	
(dollars in thousands)		% of revenue		% of revenue		% of revenue
DLTG	$13,269	8.7%	$15,120	7.3%	$(1,851)	1.4%
SSG	13,776	26.9%	11,775	19.5%	2,001	7.4%
Total Quantum	$27,045	13.2%	$26,895	10.1%	$ 150	3.1%

	Six Months Ended					
	September 29, 2002		September 30, 2001		Increase/(decrease)	
(dollars in thousands)		% of revenue		% of revenue		% of revenue
DLTG	$25,111	8.2%	$33,814	8.2%	$(8,703)	0.0%
SSG	28,024	27.7%	24,881	20.9%	3,143	6.8%
Total Quantum	$53,135	13.1%	$58,695	11.1%	$(5,560)	2.0%

Sales and marketing expenses in the three months ended September 29, 2002 were $27.0 million, or 13.2% of revenue, relatively flat compared to $26.9 million, or 10.1% of revenue, in the three months ended September 30, 2001. Sales and marketing expenses in the six months ended September 29, 2002 were $53.1 million, or 13.1% of revenue, a decrease of $5.6 million compared to $58.7 million, or 11.1% of revenue, in the six months ended September 30, 2001. The increase in sales and marketing expenses as a percentage of revenue reflected lower revenue for Quantum as a whole and increased sales and marketing expenses for SSG in absolute terms.

The six months ended September 30, 2001 included $3.9 million of HDD-related transition expenses. Sales and marketing expenses decreased as a result of cost reduction actions and lower sales.

DLTG:

Sales and marketing expenses in DLTG decreased $1.8 million, to $13.3 million in the three months ended September 29, 2002, compared to $15.1 million in the three months ended September 30, 2001. The three months ended September 30, 2001 included $1.3 million of HDD-related transition.

Sales and marketing expenses in DLTG decreased $8.7 million, to $25.1 million in the six months ended September 29, 2002, compared to $33.8 million in the six months ended September 30, 2001. The six months ended September 30, 2001 included $3.9 million of transition expenses. Sales and marketing expenses in DLTG decreased as a result of cost reduction actions and lower sales.

SSG:

Sales and marketing expenses in SSG increased $2.0 million, to $13.8 million in the three months ended September 29, 2002 compared to $11.8 million in the three months ended September 30, 2001. This increase was due to increased channel marketing and new product advertising.

Sales and marketing expenses in SSG increased by $3.1 million, to $28.0 million in the six months ended September 29, 2002 compared to $24.9 million in the six months ended September 30, 2001. This increase was due to increased channel marketing and new product advertising.

General and Administrative Expenses

	Three Months Ended					
	September 29, 2002		September 30, 2001		Increase/(decrease)	
(dollars in thousands)		% of revenue		% of revenue		% of revenue
DLTG	$10,705	7.0%	$13,834	6.7%	$(3,129)	0.3%
SSG	6,947	13.6%	9,755	16.2%	(2,808)	(2.6)%
Total Quantum	$17,652	8.6%	$23,589	8.9%	$(5,937)	(0.3)%

	Six Months Ended					
	September 29, 2002		September 30, 2001		Increase/(decrease)	
(dollars in thousands)		% of revenue		% of revenue		% of revenue
DLTG	$25,943	8.5%	$29,589	7.2%	$ (3,646)	1.3%
SSG	13,771	13.6%	20,304	17.1%	(6,533)	(3.5)%
Total Quantum	$39,714	9.8%	$49,893	9.4%	$(10,179)	0.4%

General and administrative expenses in the three months ended September 29, 2002 were $17.7 million, or 8.6% of revenue, a decrease of $5.9 million compared to $23.6 million, or 8.9% of revenue, in the three months ended September 30, 2001. General and administrative expenses in the six months ended September 29, 2002 were $39.7 million, or 9.8% of revenue, a decrease of $10.2 million compared to $49.9 million, or 9.4% of revenue, in the six months ended September 30, 2001.

Excluding $10.0 million of HDD-related transition expenses and $7.6 million amortization of goodwill, which is no longer being amortized in accordance with the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002, general and administrative expenses increased by $7.4 million in the six months ended September 29, 2002. This increase reflects higher legal costs.

DLTG:

General and administrative expenses in DLTG decreased by $3.1 million, to $10.7 million in the three months ended September 29, 2002, compared to $13.8 million in the three months ended September 30, 2001. The three months ended September 30, 2001 included $3.7 million of HDD-related transition.

General and administrative expenses in DLTG decreased by $3.7 million, to $25.9 million in the six months ended September 29, 2002, compared to $29.6 million in the six months ended September 30, 2001. The six months ended September 30, 2001 included $10.0 million of HDD-related transition expenses. The six months ended September 29, 2002 included $7.4 million of legal costs related to the lawsuits with Imation Corporation settled in the first quarter of fiscal year 2003 and a dispute with Maxtor concerning tax allocations related to the HDD disposition (refer to Note 17, '*Commitments and Contingencies*', to the condensed consolidated financial statements).

SSG:

General and administrative expenses in SSG decreased by $2.8 million, to $6.9 million in the three months ended September 29 2002, from $9.8 million in the three months ended September 30, 2001. Approximately $3.8 million of this decrease was due to the adoption of SFAS No. 142, *Goodwill and Other Intangible Asset,* on April 1, 2002, under which goodwill is no longer amortized but is subject to annual impairment tests.

General and administrative expenses in SSG decreased by $6.5 million, to $13.8 million in the six months ended September 29, 2002, compared to $20.3 million in the six months ended September 30, 2001. This decrease primarily reflected $7.6 million of goodwill amortization in the six months ended September 30, 2001.

Special Charges

In summary, throughout fiscal year 2002, and the first quarter of fiscal year 2003, both DLTG and SSG experienced more rapidly declining revenues and lower gross margins than we had anticipated in our business planning or had experienced in previous years. We found it necessary to broaden and accelerate certain cost reduction programs begun in prior years and to undertake new programs in the current fiscal year in an attempt to offset the effects of lower revenues and margins.

Although unit shipments sequentially increased in the second quarter of fiscal year 2003, our tape drive business has experienced declining quarterly unit shipments in the previous two fiscal years, and more recently, sequential declines in gross margin rates. These trends resulted in Quantum incurring special charges in fiscal years 2000, 2001, 2002 and the second quarter of fiscal year 2003 related to plans to reduce costs in our tape drive business. In fiscal year 2000, we incurred charges related to reducing overhead expenses and to discontinuing certain tape drive production in Colorado Springs, Colorado. Remaining tape drive production was discontinued at our operation in Colorado Springs, Colorado, in the second quarter of fiscal year 2002.

The Storage Solutions group incurred operating losses throughout fiscal year 2002. Pursuant to plans to reduce our cost structure, we recorded special charges in fiscal year 2002 and in the first six months of fiscal year 2003 primarily related to employee reductions.

The disposition of HDD to Maxtor occurred on April 2, 2001 and transformed Quantum from a company with operations supporting over $4 billion in annual revenue to a company with operations supporting less than $1 billion in annual revenue. Accordingly, we incurred significant special charges in the first quarter of fiscal year 2002 related to the HDD disposition and actions taken to reduce our cost structure to a level more appropriate for our reduced revenue expectation subsequent to the disposition of HDD.

Fiscal year 2003 special charges

DLT Group cost reductions

In the second quarter of fiscal year 2003, a charge of $3.2 million was recorded to reduce DLTG's costs through a headcount reduction. This charge relates to severance benefits for approximately 75 employees.

Storage Solutions group cost reductions

In the first quarter of fiscal year 2003, a charge of $1.1 million was recorded related to reduce SSG's costs with the integration of sales and marketing activities within Quantum's Storage Solutions group. The charge primarily relates to severance benefits for approximately 30 employees who were terminated or have been notified they will be terminated as a result of this restructuring plan.

In the second quarter of fiscal year 2003, a charge of $7.2 million was recorded to reduce SSG's costs and the actions include outsourcing sub-assembly manufacturing of Quantum's P-Series enterprise tape libraries, consolidating the number of research and development sites for disk-based backup and tape automation, and centralizing sales and marketing support functions. The charge reflects severance benefits for approximately 140 employees, fixed asset write-offs and vacant facility charges.

Corporate severance

In the second quarter of fiscal year 2003, a charge of $3.7 million was recorded primarily for separation costs related to Quantum's former Chief Executive Officer, who remains as Quantum's Chairman of the Board of Directors.

European operations reorganization

In the first quarter of fiscal year 2003, we reversed a charge of $0.4 million on its statement of operations related to special charges recorded in the second quarter of fiscal year 2002 for the closure of our Geneva, Switzerland sales office. We reversed the special charge because the landlord was able to re-lease the space to a new tenant on terms more favorable than originally anticipated.

Fiscal year 2002 special charges

In the first quarter of fiscal year 2002, we recorded $45.0 million of special charges related to our overall operations. These charges consisted of stock compensation and severance charges related to the disposition of HDD, restructuring costs incurred in order to align resources with the requirements of our ongoing operations, and other cost reduction activities.

The charges are described in more detail below.

Stock Compensation Charges

We incurred stock compensation charges of $16.4 million in the first quarter of fiscal year 2002. Of this $16.4 million, we expensed stock compensation of $13.9 million related to the conversion of vested HDD options into vested DSS options for employees remaining with Quantum. In addition, we recorded $2.5 million of stock compensation in connection with certain corporate employees who were terminated at the HDD disposition date and whose unvested HDD and DSS stock options and HDD restricted stock converted into shares of DSS restricted stock. The classification of these stock compensation charges as special charges rather than cost of revenue or operating expenses was based on two factors: the unusual and non-recurring nature of the event (i.e., the disposition of the HDD business) that gave rise to stock awards and stock award modifications; and the fact that the stock award was vested and did not have to be earned over a future service period.

Corporate Severance Charges

Severance charges of $8.7 million were incurred in the first quarter of fiscal year 2002 for the termination of corporate employees as a result of the disposition of HDD.

Restructuring and Other Costs

Approximately $19.9 million of special charges were incurred in the first quarter of fiscal year 2002 related to:

- Staff reductions and other costs associated with cost saving actions in tape automation system activities ($13.6 million), which were comprised of severance costs of $2.3 million; vacant facilities costs of $3.9 million for facilities in Irvine, California; sales and marketing demonstration equipment of $6.3 million; and contract cancellation fees of $1.1 million;
- Vacant facilities costs in Shrewsbury, Massachusetts, and Boulder, Colorado ($3.4 million);
- Costs associated with discontinuing solid state storage systems, product development and marketing, comprised primarily of severance costs and fixed asset write-offs ($2.2 million); and
- Other costs ($0.7 million).

In July 2001 we announced a restructuring of our DLTtape business. This restructuring resulted in the transfer of the remaining tape drive production in Colorado Springs, Colorado, to Penang, Malaysia. Additional special charges were recorded related to the closure of European distributor operations based in Geneva, Switzerland. As a result of these restructurings, we recorded a combined special charge of $17.0 million in the second quarter of fiscal year 2002.

The special charge of $16.4 million that was recorded related to the transfer of tape drive production from Colorado Springs, Colorado, to Penang, Malaysia, consisted of the following:

- Severance and benefits costs of $8.7 million representing severance for 370 employees;
- Vacant facilities costs of $4.3 million in Colorado Springs, Colorado; and
- Write-off of fixed assets and leasehold improvements of $3.4 million.

A special charge of $0.6 million was recorded related to the closure of our Geneva, Switzerland sales office, reflecting vacant facilities costs.

The following two tables show the activity for the six-month period ended September 29, 2002 and the estimated timing of future payouts for the following major cost reduction projects (for a complete discussion of our special charge activity, refer to note 10 in our Annual Report on Form 10-K for the year ended March 31, 2002):

- Discontinuation of Manufacturing in Colorado Springs; and
- Other Restructuring Programs.

Discontinuation of Manufacturing in Colorado Springs

(in thousands)	Severance	Facilities	Total
Balance March 31, 2002	**$ 2,210**	**$16,240**	**$ 18,450**
Cash payments	(1,397)	(1,155)	(2,552)
Balance June 30, 2002	**813**	**15,085**	**15,898**
Cash payments	(813)	(1,155)	(1,968)
Balance September 29, 2002	**$ —**	**$13,930**	**$ 13,930**
Estimated timing of future payouts:			
Quarter 3 of Fiscal Year 2003	$ —	$12,390	$ 12,390
Quarter 4 of Fiscal Year 2003	—	1,155	1,155
Fiscal Year 2004	—	385	385
Total	**$ —**	**$13,930**	**$ 13,930**

The cash payments in the three months ended September 29, 2002 represented severance payments of $0.8 million and lease payments of $1.2 million for vacant facilities. The remaining special charge accrual related to facilities reflects a vacant space accrual of $2.7 million, which will be paid over the respective lease terms through the first quarter of fiscal year 2004, and a contingent lease obligation of $11.2 million. This contingent lease obligation reflects the difference between the current estimated market value of vacant facilities in Colorado Springs and the value guaranteed by us to the lessor at the end of the lease term and will be paid to the lessor in the third quarter of fiscal year 2003. The charge related to the contingent lease obligation is further explained in Note 17, '*Commitments and Contingencies',* to the condensed consolidated financial statements.

Other Restructuring Programs

(in thousands)	Severance and Benefits	Fixed Assets	Facilities	Other	Total
Balance at March 31, 2002	**$ 2,127**	**$ —**	**$2,395**	**$1,255**	**$ 5,777**
SSG Provision	963	106	—	—	1,069
Cash payments	(1,710)	—	(116)	(150)	(1,976)
Non-cash charges	—	(106)	—	—	(106)
Restructuring charge benefit	—	—	(445)	—	(445)
Balance at June 30, 2002	**1,380**	**—**	**1,834**	**1,105**	**4,319**
DLTG internal restructuring	3,238	—	—	—	3,238
Corporate severance	3,700	—	—	—	3,700
SSG restructuring	4,965	824	1,369	—	7,158
Cash payments	(1,090)	—	(173)	—	(1,263)
Non-cash charges	—	(824)	—	—	(824)
Balance at September 29, 2002	**$12,193**	**$ —**	**$3,030**	**$1,105**	**$16,328**
Estimated timing of future payouts:					
Quarter 3 of Fiscal Year 2003	$ 6,318	$ —	$ 155	$1,105	$ 7,578
Quarter 4 of Fiscal Year 2003	5,316	—	249	—	5,565
Fiscal Year 2004	559	—	918	—	1,477
Fiscal Year 2005 onward	—	—	1,708	—	1,708
Total	**$12,193**	**$ —**	**$3,030**	**$1,105**	**$16,328**

The cash payments in the three months ended September 29, 2002 represented severance payments of $1.1 million and lease payments of $0.2 million for vacant facilities. The $16.3 million remaining special charge accrual at September 29, 2002 is comprised mainly of obligations for severance, vacant facilities and contract cancellation fees. The severance charges will mainly be paid over fiscal year 2003; the facilities charges relate to vacant facilities in Irvine, California, and will be paid over the respective lease term through the third quarter of fiscal year 2006; the contract cancellation fees are expected to be paid by the fourth quarter of fiscal year 2003.

We expect to realize annual cost savings from the restructuring programs detailed in the above two tables of approximately $65 million. Of this $65 million, approximately $25 million of the savings is expected in cost of revenue as a result of reduced manufacturing costs, with the remaining amount to come from reduced operating expenses, mainly due to reductions in headcount.

We expect to record the following special charges in the third quarter of fiscal year 2003 related mainly to severance and other benefits for employees severed related to the following transactions (refer to note 19 *'Subsequent Events'*):

- Acquisition of Benchmark Storage Innovations—approximately $3 million;
- Outsource of certain manufacturing activities to Jabil—approximately $5 million; and
- Disposition of the NAS business—approximately $4 million.

Given the trend of declining revenues and margins that is likely to continue at least for the remainder of fiscal year 2003 and the fact that we do not expect a rapid recovery in IT spending, we recognize the need to further reduce our cost structure and operating expenses in order to align our cost structure with reduced revenue expectations. Accordingly, we expect to record in the third quarter of fiscal year 2003 severance-related charges of approximately $3 million, in addition to those charges described above, due to headcount reductions mainly in our SSG group.

Purchased In-process Research and Development Expense

We expensed purchased in-process research and development of $13.3 million a result of the acquisition of M4 Data in April 2001. The following table summarizes the relevant factors used to determine the amount of purchased in process research and development.

(dollars in thousands)	Amount of purchased IPR&D	Estimated cost to complete technology at time of acquisition	Percentage completion at time of acquisition	Overall compound growth rate	Discount rate
M4 Data	$13,299	$1,515	58% to 67%	27%	34%

In this acquisition, the amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using an appropriate discount rate. The discount rate used represents a premium to our cost of capital. All of the projections used are based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions.

Revenue from the M4 Data acquisition for the purchased in-process projects is expected to grow from approximately $60 million in 2002 to more than $260 million in 2008. The M4 Data in-process research and development projects were completed in the second quarter of fiscal year 2003.

For additional information regarding the M4 Data acquisition, refer to note 14 to the condensed consolidated financial statements.

Stock Compensation Charges

	Three Months Ended		Six Months Ended	
(in thousands)	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Stock compensation related to the disposition of the HDD group:				
Cost of revenue or Operating expenses	$ 294	$ 3,039	$ 679	$ 11,901
Special charges	—	—	—	16,404
	294	3,039	679	28,305
Stock compensation not related to the disposition of the HDD group:				
Cost of revenue or Operating expenses	47	891	211	2,394
	$ 341	$ 3,930	$ 890	$ 30,699

Stock compensation expense decreased by $29.8 million, to $0.9 million in the six months ended September 29, 2002, compared to $30.7 million in the six months ended September 30, 2001. This decrease was mainly due to HDD disposition-related stock compensation expense of $28.3 million recorded in the six months ended September 30, 2001 for the conversion and/or acceleration of stock equity awards for employees remaining with Quantum after the disposition of HDD. The allocation of the $28.3 million between "Cost of revenue or Operating expenses" and "Special charges" was based on two factors: the unusual and non-recurring nature of the event (i.e., the disposition of the HDD business) that gave rise to stock awards and stock award modifications; and whether the vesting had already occurred or was accelerated to fully vested at the time of the award or modification. If vesting had already occurred or was accelerated to fully vested then there was no future benefit to Quantum and the related stock compensation expense for the vested portion of the award was treated as "special charges". Where the unvested portion of an award was to be earned and vest over a future service period providing future value to Quantum, the related stock charge was recognized ratably as compensation expense over the vesting period in the appropriate category of "Cost of revenue or Operating expense".

Stock compensation expense recorded in fiscal year 2003 that related to the disposition of HDD reflects the vesting of DSS option and DSS restricted stock grants converted from HDD option and HDD restricted stock grants, respectively, on April 2, 2001, the date of disposition of HDD to Maxtor.

Stock compensation expense not related to the disposition of HDD consists of the vesting of DSS restricted stock grants and decreased by $2.2 million, to $0.2 million in the six months ended September 29, 2002, compared to $2.4 million in the six months ended September 30, 2001. This decrease reflects the lower number of restricted stock grants that are outstanding.

Amortization of Goodwill and Intangible Assets

We adopted SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets,* effective April 1, 2002. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but will be subject to annual impairment tests. With the adoption of SFAS No. 142, we ceased amortization of goodwill as of April 1, 2002. Our initial impairment test of goodwill was conducted in the first quarter of fiscal year 2003 and resulted in a non-cash accounting change adjustment of $94.3 million, reflecting a reduction in the carrying amount of our goodwill. This charge is reflected as a cumulative effect of an accounting change in our condensed consolidated statements of operations. In the second quarter of fiscal year 2003, we recorded an additional goodwill impairment charge related to our Storage Solutions group of $58.7 million due to a re-evaluation of the Storage Solutions group in light of deterioration in the market values of comparable companies, and to a lesser extent, a reduction in anticipated future cash flows. The continued slump in spending in the IT industry contributed to this decrease in estimated future cash flows. The fair value of the Storage Solutions group reporting entity was calculated using a combination of a discounted cash flow analysis involving projected data and a comparable market approach, which is a comparison with companies also in the tape automation sector.

The amortization expense associated with goodwill and intangible assets decreased from approximately $6.9 million in the second quarter of fiscal year 2002 to $3.0 million in the second quarter of fiscal year 2003. Amortization expense decreased by $7.9 million to $6.0 million in the six months ended September 29, 2002 compared to $13.9 million in the six months ended September 30, 2001. The decreases were due mainly to goodwill no longer being amortized. The following table details goodwill and intangible asset amortization expense by classification within our condensed consolidated statements of operations:

	Three Months Ended		Six Months Ended	
(in thousands)	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Cost of revenue	$ 1,695	$ 1,776	$ 3,390	$ 3,549
Research and development	139	289	347	578
Sales and marketing	1,073	939	1,979	1,878
General and administrative	126	3,942	252	7,886
	$ 3,033	$ 6,946	$ 5,968	$ 13,891

The following table summarizes our goodwill and intangible assets:

(in thousands)	September 29, 2002	March 31, 2002
Goodwill	$ 48,108	$ 173,967
Intangible assets	100,180	101,500
	148,288	275,467
Less accumulated amortization	(81,313)	(75,345)
	$ 66,975	$ 200,122

Net goodwill and intangible assets at September 29, 2002 and March 31, 2002 represented approximately 7% and 17% of total assets, respectively. The goodwill and intangible assets balances, net of amortization, at September 29, 2002 and March 31, 2002, were $67.0 million and $200.1 million, respectively, and included the following goodwill from acquisitions net of amortization (these acquisitions were both integrated into the Storage Solutions group):

(in thousands)	September 29, 2002	March 31, 2002
ATL	$ 7,711	$ 105,720
M4 Data	2,247	30,097
	$ 9,958	$ 135,817

The $125.9 million decrease in goodwill from March 31, 2002 to September 29, 2002 reflects the $58.7 million goodwill impairment charge in the second quarter of fiscal year 2003 and the $67.9 million portion of the cumulative effect of an accounting change of $94.3 million upon adoption of SFAS No. 142 that is applicable to continuing operations, partially offset by the reclassification of assembled workforce of $0.7 million, net of taxes, from intangible assets to goodwill.

Acquired intangible assets are amortized over their estimated useful lives, which range from three to ten years. Management, in estimating the useful lives of intangible assets, considered the following factors:

- The cash flow projections used to estimate the useful lives of the intangible assets showed a trend of growth that was expected to continue for an extended period of time;
- The tape automation products, in particular, have long development cycles and have experienced long product life cycles; and
- The ability to leverage core technology into new tape automation products, and to therefore extend the lives of these technologies.

We assess the recoverability of our long-lived assets, including intangible assets with finite lives, in accordance with SFAS No. 144 by comparing projected undiscounted net cash flows associated with those assets against their respective carrying amounts to determine whether impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. As of September 29, 2002, no such impairment has been identified with respect to our acquired intangible assets.

Goodwill will be reviewed for impairment at least on an annual basis, or more frequently when indicators of impairment are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its fair value. The fair values of the reporting units underlying our Storage Solutions group are estimated using a discounted cash flow methodology. If the reporting units' net book values exceed their fair values, therefore indicating impairment, then we will compare the implied fair values of the reporting units' goodwill to their carrying amounts.

Refer to note 3, *'Cumulative Effect of an Accounting Change'*, and note 4, *'Goodwill and Intangible Assets'*, of the condensed consolidated financial statements for further information on the effect on goodwill and intangible assets of adopting and applying SFAS No. 142.

Interest and Other Income (Expense), net, and Write-down of Equity Investments

	Three Months Ended			
	September 29, 2002		September 30, 2001	
	(in thousands)	% of revenue	(in thousands)	% of revenue
Interest and other income	$ 2,427	1.2%	$ 4,124	1.5%
Interest expense	(6,420)	(3.1)%	(5,548)	(2.1)%
	$ (3,993)	(2.0)%	$ (1,424)	(0.5)%
Write-downs of equity investments	$ —	0.0%	$ (4,670)	(1.8)%

	Six Months Ended			
	September 29, 2002		September 30, 2001	
	(in thousands)	% of revenue	(in thousands)	% of revenue
Interest and other income	$ 5,024	1.2%	$ 10,273	1.9%
Interest expense	(12,260)	(3.0)%	(11,061)	(2.1)%
	$ (7,236)	(1.8)%	$ (788)	(0.1)%
Write-downs of equity investments	$ (17,061)	(4.2)%	$ (4,670)	(0.9)%

Net interest and other income/expense in the second quarter of fiscal year 2003 was a $4.0 million expense compared to $1.4 million expense in the second quarter of fiscal year 2002. For the six months ended September 29, 2002, net interest and other income/expense was $7.2 million expense compared to $0.8 million expense in the six months ended September 30, 2001. The increase in expense in both the three and six-month periods mainly reflected reduced interest income as a result of lower interest rates and lower cash balances. Also contributing to the decrease in other income in the three and six-month periods ended September 29, 2002 were a $0.9 million and $1.6 million net currency loss, respectively, attributable to the effect that the weakening U.S. dollar had on dollar-denominated bank accounts held by our European subsidiaries.

During the six months ended September 29, 2002, we recorded charges of $17.1 million compared to charges of $4.7 million in the six months ended September 30, 2001 to write down our equity investments to net realizable value based on other-than-temporary declines in the estimated value of these investments. In the second quarter of fiscal year 2003, we sold our entire portfolio of venture capital equity investments for $11.0 million (refer to note 16, '*Investments in Other Entities*'). Our equity investments are recorded in "Other assets".

Income Taxes

We recorded a tax expense of $0.8 million for the three months ended September 29, 2002 compared to a tax benefit of $2.7 million for the three months ended September 30, 2001. Included in the tax expense for the three months ended September 29, 2002 was a $10.2 million tax charge related to the anticipated repatriation of offshore earnings connected with the pending outsourcing of our Malaysian manufacturing operations. Excluding this charge, our effective tax rates on losses from continuing operations were 10% and 23% for the three months ended September 29, 2002 and September 30, 2001, respectively, and reflect the non-deductibility of goodwill impairment and special charges in fiscal year 2003 and equity investment write-downs in fiscal year 2002.

The effective tax rates on income from continuing operations, excluding write-downs of equity investments, restructuring charges, HDD-related transition expenses, intangible amortization and other special charges was 30% for the three-month periods ended September 29, 2002 and September 30, 2001.

We recorded tax benefits of $4.0 million and $6.9 million for the six months ended September 29, 2002 and September 30, 2001 respectively. Excluding the $10.2 million tax charge related to the anticipated repatriation of offshore earnings connected with the pending outsourcing of our Malaysian manufacturing operations, our effective tax rates on losses from continuing operations are 12% and 15% respectively, and reflect the non-deductibility of goodwill impairment, write-downs of equity investments, purchased in-process research and development, and special charges.

The effective tax rates on income from continuing operations, excluding write-downs of equity investments, restructuring charges, transition charges, intangible amortization and other special charges was 30% and 31% for the six months ended September 29, 2002 and September 30, 2001 respectively.

Results of Discontinued Operations

Loss from NAS discontinued operations, net of income taxes

	Three Months Ended		Six Months Ended	
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Loss from operations, net of income taxes	$ (19,375)	$ (9,289)	$ (28,628)	$ (19,468)

On October 7, 2002, we entered into an agreement with a privately held third party to sell certain assets and assign certain contract rights related to our NAS business. The assets included inventories, service inventories, fixed assets and intellectual property. The proceeds from the sale include approximately $4.7 million in cash, $3.9 million in restricted equity securities of the buyer (with an option to purchase an additional $1.8 million of such equity securities), a secured promissory note for $2.4 million issued by the buyer and the assumption by the buyer of $1.6 million of warranty liability related to the current installed customer base of NASD products. The sale was completed on October 28, 2002.

The loss from operations in the three and six-month periods ended September 29, 2002 include an impairment charge of $16.4 million. In the second quarter of fiscal year 2003, we determined that the sale of the NAS business was probable and wrote down the assets held for sale to fair value less cost to sell. The fair value of the assets held for sale was determined to be the proceeds from the sale. The resulting impairment charge related mainly to completed technology arising from the acquisitions of Meridian Data Inc., and certain assets of Connex.

Gain on disposition of HDD group, net of income taxes

On March 30, 2001, our stockholders approved the disposition of HDD to Maxtor. On April 2, 2001, each authorized and outstanding share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock.

The gain from disposition of discontinued operations of $122.9 million in the condensed statements of operations for the six months ended September 30, 2001, reflects the gain on the disposition of HDD. This gain, net of tax, is comprised of the proceeds recorded for the exchange of HDD shares for Maxtor shares, less the disposal of the assets and liabilities in conjunction with the disposition of HDD to Maxtor, and stock compensation charges for the conversion of unvested DSS options to DSS restricted stock for employees who transferred to Maxtor. See risk factor entitled—*If we incur an uninsured tax liability as a result of the disposition of HDDour financial condition and operating results could be negatively affected.*

Recent Accounting Pronouncements

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"*. This statement supercedes EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. This statement is effective prospectively for exit or disposal activities initiated after December 31, 2002. We are in the process of the evaluating the financial statement impact, if any, of adoption of SFAS No. 146.

Subsequent Events

Acquisition of Benchmark Storage Innovations

On September 5, 2002, we signed a definitive agreement to acquire the remaining outstanding shares of Benchmark Storage Innovations ("Benchmark"), a privately held supplier of DLTtape drives, media and autoloaders. We currently own nearly 20% of Benchmark and will pay the other Benchmark shareholders approximately $11.0 million in cash and issue approximately 13.1 million shares of Quantum common stock for the remaining outstanding shares of Benchmark. We will also provide up to 1.9 million additional shares of Quantum common stock to be paid to Benchmark shareholders as additional consideration if certain performance milestones are reached in the first year after the acquisition. The transaction, which is subject to certain conditions, including the receipt of approval from Benchmark's shareholders and applicable regulatory approval, is expected to close during the third quarter of fiscal year 2003. The acquisition will be accounted for as a purchase. We expect to incur a special charge of approximately $3 million in the third quarter of fiscal year 2003, primarily related to severance cost for certain Quantum employees who will be terminated once the agreement closes.

Outsource of certain manufacturing activities to Jabil Circuit Inc.

On August 29, 2002, we signed a definitive agreement to outsource tape drive manufacturing and certain tape automation manufacturing to Jabil Circuit Inc. ("Jabil"). Under the terms of the agreement, Jabil will utilize our manufacturing facility in Penang, Malaysia and purchase raw materials, work-in-process inventories and production fixed assets from us. The agreement is subject to approval by the Malaysian government and is expected to close during the third quarter of fiscal year 2003. We expect to record a special charge of approximately $5 million in the third quarter of fiscal year 2003, primarily related to severance costs for the approximately 870 employees who will be terminated once the agreement closes.

Disposition of the NAS business

On October 7, 2002, we entered into a definitive agreement to sell certain assets and assign certain contract rights used in the operation of our NAS business to Broadband Storage, Inc. ("Broadband"), a privately held company. The assets sold include inventories, fixed assets and intellectual property. The sale closed on October 28, 2002. The proceeds from the sale consisted of approximately $11 million in cash and securities and the assumption by Broadband of a $1.6 million warranty liability. We expect to record a special charge of approximately $4 million in the third quarter of fiscal year 2003, primarily severance costs for the approximately 50 employees who will be terminated and vacant facility costs.

LIQUIDITY AND CAPITAL RESOURCES

(dollars in thousands)	As of or for six months ended September 29, 2002	September 30, 2001
Cash and cash equivalents	$ 308,794	$ 343,665
Days sales outstanding (DSO)	53.6	60.7
Inventory turns—annualized	6.1	6.3
Net cash provided by operating activities of continuing operations	$ 8,563	$ 19,015
Net cash provided by (used in) investing activities of continuing operations	$ 465	$ (56,106)
Net cash used in financing activities of continuing operations	$ (35,675)	$ (2,023)

First Six Months of Fiscal Year 2003 compared to the First Six Months of Fiscal Year 2002

Net cash provided by operating activities:

Net cash provided by operating activities of continuing operations decreased to $8.6 million provided in the first six months of fiscal year 2003 from $19.0 million provided in the first six months of fiscal year 2002. The primary sources of this change are listed in the following table:

(in thousands)	Six Months Ended September 29, 2002 cash (used), provided	September 30, 2001 cash (used), provided	Change in cash (used), provided
Loss from continuing operations including cumulative effect of an accounting change	$ (213,699)	$ (40,339)	$ (173,360)
Non-cash income statement items	186,199	84,917	101,282
Adjusted income (loss) from operations	(27,500)	44,578	(72,078)
Accounts receivable	25,925	25,160	765
Inventories	5,552	15,985	(10,433)
Accounts payable	18,860	13,278	5,582
Income taxes payable	(10,313)	(2,486)	(7,827)
Other, net	(3,961)	(77,500)	73,539
	$ 8,563	$ 19,015	$ (10,452)

Net cash provided by operating activities of continuing operations decreased by $10.5 million in the six months ended September 29, 2002 compared to the six months ended September 30, 2001. The decrease in net cash provided by operating activities was primarily due to the increase in the loss from continuing operations and a decrease in cash provided by inventories, partially offset by a decrease in cash used in net other liabilities.

The loss from operations in the six months ended September 29, 2002, adjusted for non-cash items, was $27.5 million; a decrease of $72.1 million from the $44.6 million in income from operations reported in the six months ended September 30, 2001. The decrease was primarily caused by increased operating losses resulting from declining revenues and gross margins that we experienced during the first six months of fiscal year 2003, partially offset by the transitional costs following the disposition of HDD and significant special charges incurred related to our cost reduction projects in the first six months of fiscal year 2002.

Net cash provided by (used in) investing activities:

Net cash provided by investing activities of continuing operations increased to $0.5 million in the six months ended September 29, 2002 from $56.1 million of net cash used in the six months ended September 30, 2001. The increase included $11.0 million from the sale of equity securities in the second quarter of fiscal year 2003, $14.9 million for the acquisition of M4 Data in April 2001, and $19.2 million of equity securities purchases in the first six months of fiscal year 2002. Net cash used for purchases of property and equipment decreased to $10.4 million in the six months ended September 29, 2002 compared to $22.0 million in the six months ended September 30, 2001.

Net cash used in financing activities:

Net cash used in financing activities of continuing operations was $35.7 million in the six months ended September 29, 2002, compared to $2.0 million used in financing activities in the six months ended September 30, 2001. The increase in cash used in financing activities reflects principal payments of $38.7 million in the first quarter of fiscal year 2003 for debentures issued in the M4 Data acquisition and a $33.7 million decrease in the proceeds from the exercise of employee stock options in the first six months of fiscal year 2003 compared to the first six months of fiscal year 2002. The increases in cash used were partially offset by there being no repurchases of our common stock in the first six months of fiscal year 2003, compared to $38.7 million in the first six months of fiscal year 2002.

Forward-looking analysis:

Our ability to generate positive cash flow from operations mainly depends on whether we can sustain or grow our revenues and gross margins or reduce our cost structure. This is highly dependent on many factors, including the introduction of competitive products, our ability to timely develop and offer new products, customer acceptance of new products, and continued reductions in our cost of sales and operating expenses. Changes in our accounts receivable and inventory balances have also been significant factors in whether we provide or use cash from operations. Cash provided by the change in accounts receivable could decrease or become a use of cash if we are unable to collect adequate amounts of cash from customers on a timely basis. Net cash provided by the change in inventories can decrease or become a use of cash depending on many factors impacting our ability to sell our inventory, such as the introduction of new products by competitors, shortened product life cycles, and a continued decrease in demand for our products or changes in technology.

Operating cash flows have been a significant source of our liquidity, and if we do not return to profitability and generate sufficient levels of net income, such lack of profitability will have a material adverse impact on our operating cash flows, liquidity and financial position.

Our results of operations reflect significant special charges related to our cost reduction efforts and we expect to record additional charges in the future. At September 29, 2002 we had accrued $30.3 million of such charges, primarily related to severance benefits and vacant facilities. We expect to use $26.7 million of cash in the second half of fiscal year 2003 for special charge obligations.

Our ability to make strategic investments in property and equipment and tangible and intangible assets is dependent upon our ability to generate liquidity through cash provided by operations and the future availability of debt or equity arrangements at terms acceptable to us, if available at all. Proceeds from the issuance of common stock have also been a significant source of cash in the past. In fiscal year 2003 we expect to receive substantially lower proceeds from the issuance of common stock as compared to fiscal year 2002 because of the decline in our common stock price.

As discussed below under 'Credit Line' and 'Operating Lease Commitment', we are in the process of negotiating a new senior credit facility and a new operating lease facility. We violated several covenants relating to both of these facilities in our second fiscal quarter ended September 29, 2002. We received waivers for these covenant violations and will continue to work towards replacing these facilities. If we cannot obtain new facilities and are required by our bank groups to either restrict $38.2 million of our own cash to cover a standby letter of credit under our senior credit facility, or to pay down our operating lease either in full or at a substantial discount to its appraised value, our liquidity and financial position would be materially and adversely affected.

Credit line

In April 2000, we entered into an unsecured senior credit facility with a group of banks providing a $187.5 million revolving credit line that expires in April 2003. As of September 29, 2002, $38.2 million is committed to a standby letter of credit. There is a cross default provision between this facility and the operating lease facility such that a default on one facility constitutes a default on the other facility. On August 9, 2002, we received a waiver from the bank group for the covenants violated as of June 30, 2002. During the quarter ended September 29, 2002, we violated the Tangible Net Worth, Leverage Ratio and EBITDA financial covenants of the credit line. On October 25, 2002, Quantum received a waiver of these covenant violations from the bank group for the quarter ended September 29, 2002. The financial covenants were not amended and we are required to satisfy these covenants in subsequent quarters to obtain access to the line of credit. The waiver disallows any new borrowings or new letters of credit to be issued until we are in compliance with the financial and reporting covenants or we obtain approval of such new borrowings or new letters of credit from the majority of the banks participating in the line of credit. We do not anticipate that we will be in compliance with these covenants in the future. If we are unsuccessful in securing a waiver or amendment in subsequent quarters, or securing a new facility, we may be required to pledge $38.2 million of our cash as collateral to cover this existing letter of credit, which would appear as restricted cash on our balance sheet. This could have a material and adverse impact on our liquidity. We are currently in discussions with the banks concerning a replacement of this credit facility, but cannot give assurances that we will be successful in obtaining such an amendment or replacement. Until we are able to comply with or amend these financial covenants, or replace the credit facility itself, this credit line is not available to us. If we cannot comply with or amend these financial covenants or replace this credit line on acceptable terms, we may terminate the credit line.

Operating Lease Commitment

We have an operating lease commitment that requires us to maintain specified financial covenants. There is a cross default provision between this lease and the credit line facility such that a default on one facility constitutes a default on the other facility. On August 9, 2002, we received a waiver for covenants violated as of June 30, 2002. During the quarter ended September 29, 2002, we violated the Tangible Net Worth, Leverage Ratio and EBITDA financial covenants of the credit line. On October 25, 2002, we received a waiver of these covenant violations from the bank group for the quarter ended September 29, 2002. As part of the waiver agreement, Quantum has agreed to pay $12.5 million to the lessor in the third quarter of fiscal year 2003, which is the difference between the current estimated market value of the facilities and the $62.8 million value guaranteed by Quantum to the lessor at the end of the lease term. We do not anticipate that we will be in compliance with these covenants in subsequent quarters of fiscal year 2003. The financial covenants were not amended and we are required to satisfy these covenants in subsequent quarters. If in the future we continue to violate these financial covenants, and are unable to obtain a waiver for such future covenant violations, the lessor could terminate the lease, resulting in either the acceleration of our obligation to purchase the leased facility or our having to sell the leased facility. Either of these alternatives could result in our having to sell the facilities promptly and potentially at a substantial discount to their current appraised value. If this occurred, our liquidity and financial position would be materially and adversely affected. We believe we will be successful in obtaining waivers or amendments in future quarters through the end of the lease term in April 2003, or alternatively, will be successful in securing a new facility. However, we cannot give assurance that we will be able to do so. We have the right to prepay this lease without penalty or adverse consideration. If required, we believe we have sufficient financial resources to satisfy the guaranteed value obligation by arranging for the sale of this facility at a price approximating its recently appraised value and paying the remaining obligation out of our existing cash balances.

We are currently in discussions with the banks concerning a replacement of this lease. We cannot give assurance that we will be successful in replacing the lease at all.

If unable to successfully replace the lease, we would be required to pursue the other two end of lease term options:

- Purchase the facility from the lessor; or
- Arrange for the leased facility to be sold to a third party with Quantum retaining an obligation to the lessor for the $62.8 million value guaranteed by Quantum to the lessor at the end of the lease term. The proceeds of a sale to a third party would be used to satisfy the $62.8 million obligation to the lessor.

We completed a third party valuation appraisal of the leased facility in the fourth quarter of fiscal year 2002, which indicated a contingent obligation of approximately $12.5 million under the guaranteed value obligation. Of this $12.5 million total, we recorded a charge of $11.2 million, which reflects the difference between the current estimated market value of vacant facilities in Colorado Springs and the obligation to the lessor. The remaining $1.3 million relates to the portion of the facilities that we still occupy and is being amortized over the remaining lease period.

General outlook

We can make no assurances that we will be able to generate sufficient liquidity in the future, and if we cannot generate such liquidity, such lack of liquidity could have a material adverse impact on our financial position. However, we believe that our existing cash and capital resources, including any cash generated from operations after we complete our restructuring efforts over the next several quarters, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. This belief is dependent upon our ability to generate acceptable levels of revenue to provide net income and positive cash flow from operating activities in the future. If we were to experience further declines in sales or profit margins, cash flows from our operating activities could be materially and adversely affected, which could impact the future availability of debt or equity arrangements on terms acceptable to us. We can make no assurances that we will be able to generate or obtain sufficient amounts of cash in the future, and if we cannot, this lack of cash could have a material adverse impact on our liquidity and financial position.

Capital Resources

During fiscal year 2000, the Board of Directors authorized us to repurchase up to $700 million of our common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of Quantum, DSS or the previously outstanding HDD common stock. An additional $100 million was authorized solely for repurchase of the previously outstanding HDD common stock. For the six months ended September 29, 2002, there were no repurchases of Quantum common stock. Since the beginning of the stock repurchase authorization through September 29, 2002, we have repurchased a total of 8.6 million shares of Quantum common stock (including 3.9 million shares that were outstanding prior to the issuance of the DSS and HDD common stocks), 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock, for a combined total of $612.1 million. At September 29, 2002, there was approximately $87.9 million remaining authorized to purchase Quantum common stock.

We filed a registration statement that became effective on July 24, 1997, pursuant to which we may issue debt or equity securities, in one or more series or issuances, limited to $450 million aggregate public offering price. In July 1997, under the registration statement, we issued $287.5 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of Quantum common stock and Maxtor common stock. The notes are convertible into 6,206,152 shares of Quantum common stock (or 21.587 shares per $1,000 note), and 4,716,676 shares of Maxtor common stock (or 16.405 shares per $1,000 note). We have recorded a receivable from Maxtor of $95.8 million for the portion of the debt previously attributed to HDD and for which Maxtor has agreed to reimburse us for both principal and associated interest payments. Although we believe the $95.8 million due from Maxtor will ultimately be realized, if Maxtor were for any reason unable or unwilling to pay such amount, we would be obligated to pay this amount and record a loss with respect to this amount in a future period. We may redeem the notes at any time. In the event of certain changes involving all or substantially all of our common stock, the holder would have the option to redeem the notes. Redemption prices range from 101% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all of our existing and future senior indebtedness. Although we believe the $95.8 million due from Maxtor will ultimately be realized, if Maxtor were for any reason unable or unwilling to pay such amount, we would remain obligated to pay this amount and would likely record a loss with respect to this amount in a future period, which would have a material adverse effect on our results of operations and financial condition.

Debentures payable of $41.3 million were issued as partial consideration for the acquisition of M4 Data in April 2001. The debenture holders called and received payment from Quantum for $38.7 million in the first quarter of fiscal year 2003 and we have received notification from the holders stating their intention to call an additional $2.6 million by the end of the third quarter of fiscal year 2003.

The table below summarizes our long-term commitments:

(in thousands)	Less than 1 year	1-3 years	Beyond 3 years	Total
Convertible subordinated debt	$ —	$287,500	$ —	$287,500
Portion payable by Maxtor (1)	—	(95,833)	—	(95,833)
Subtotal	—	191,667	—	191,667
Short-term debt	3,097	—	—	3,097
Inventory purchase commitment	1,973	—	—	1,973
Operating leases (2)	26,836	25,644	8,547	61,027
	$ 31,906	$217,311	$ 8,547	$257,764

(1) Refer to note 2 to the condensed consolidated financial statements.
(2) Includes the operating lease obligation discussed above.

TRENDS AND UNCERTAINTIES

THE READER SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q, BEFORE MAKING AN INVESTMENT DECISION. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING QUANTUM. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT ARE CURRENTLY DEEMED IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS AND OPERATIONS. THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS "FORWARD-LOOKING" STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. FORWARD-LOOKING STATEMENTS USUALLY CONTAIN THE WORDS "ESTIMATE," "ANTICIPATE," "EXPECT", "BELIEVE", OR SIMILAR EXPRESSIONS. ALL FORWARD-LOOKING STATEMENTS, INCLUDING, BUT NOT LIMITED TO, PROJECTIONS OR ESTIMATES CONCERNING OUR BUSINESS, INCLUDING DEMAND FOR OUR PRODUCTS, ANTICIPATED GROSS MARGINS, OPERATING RESULTS AND EXPENSES, MIX OF REVENUE STREAMS, EXPECTED REVENUE FROM PURCHASED IN-PROCESS PROJECTS, COST SAVINGS, STOCK COMPENSATION, THE PERFORMANCE OF OUR MEDIA BUSINESS AND THE SUFFICIENCY OF CASH TO MEET PLANNED EXPENDITURES, ARE INHERENTLY UNCERTAIN AS THEY ARE BASED ON MANAGEMENT'S EXPECTATIONS AND ASSUMPTIONS CONCERNING FUTURE EVENTS, AND THEY ARE SUBJECT TO NUMEROUS KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH BELOW AND ELSEWHERE IN THIS QUARTERLY REPORT ON FORM 10-Q.

We are exposed to general economic conditions that have resulted in significantly reduced sales levels and operating losses and if such adverse economic conditions were to continue or worsen, our business, financial condition and operating results could be more adversely impacted.

If the adverse economic conditions in the United States and throughout the world economy continue or worsen, we may experience a material adverse impact on our business, operating results, and financial condition. We took actions in fiscal year 2002 and in the first six months of fiscal year 2003 to reduce our cost of sales and operating expenses in order to address these adverse conditions. A prolonged continuation or worsening of sales trends would require that we take additional actions to reduce further our cost of sales and operating expenses in subsequent quarters to align these costs with reduced revenue. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level consistent with such a future adverse sales environment. If we must undertake further expense reductions, we may incur significant incremental special charges associated with such expense reductions that are disproportionate to sales, thereby adversely affecting our business, financial condition and operating results.

Quantum is currently not profitable. If we are unable to generate positive cash flow from operating activities, our ability to obtain additional capital in the future could be jeopardized and our business could suffer.

We have to devote substantial resources to new product development, manufacturing, and sales and marketing activities to be competitive in our markets. Historically, cash flow from operating activities has been a significant source of cash and liquidity for us to invest in our businesses. Until or unless we return to profitable operations, we could jeopardize our ability to gain access to capital, which potentially could have a material adverse impact on our business, results of operations, liquidity, and financial condition.

Our Storage Solutions group currently operates at a loss and may continue to operate at a loss. If we are unable to make our Storage Solutions business profitable, the losses could have a material and adverse affect on our business, financial condition and results of operations.

We have invested, and will continue to invest, in the development, promotion and sale of storage solutions. Operating expenses associated with our Storage Solutions revenue are comparatively high, resulting in losses and cash consumption out of proportion to the revenue generated, when compared to our tape business. Therefore, we will need to generate significant storage solutions revenues or a significant reduction in related operating expenses in order to make the Storage Solutions business profitable. We cannot provide assurance that the Storage Solutions group will ever produce operating income or will ever generate positive cash flow, and, if we were unable to do so, these losses could negatively impact our business, financial condition and operating results.

Goodwill and intangible assets used in the Storage Solutions group were reviewed for possible impairment upon the adoption on April 1, 2002 of SFAS No. 142, *Goodwill and Other Intangible Assets*, and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. The impairment test conducted relative to goodwill resulted in a $94.3 million impairment charge being recorded in the first quarter of fiscal year 2003 and a $58.7 million impairment charge in the second quarter of fiscal year 2003. The intangible assets were not determined to be impaired, based on projections of discounted net cash flows from the Storage Solutions group compared to the carrying value of the intangible assets. However, both tests use financial projections involving significant estimates and uncertainties regarding future revenues, expenses and cash flows. We cannot provide assurance that future net cash flows will be sufficient to avoid further impairment charges. As a result, in the future, we may incur additional impairment charges related to our Storage Solutions business, which would adversely affect the group's operating income, which could have a materially adverse impact on the results of our operations or our financial condition.

A majority of our sales come from a few customers and these customers have no minimum or long-term purchase commitments, and the loss of, or a significant change in demand from, one or more key customers could materially and adversely affect our business, financial condition and operating results.

Our sales are concentrated among a few customers. Sales to our top five customers in the six months ended September 29, 2002, represented 38% of total revenue. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with our customers are terminable at will.

The recent merger of Hewlett-Packard and Compaq has significantly increased the concentration of our sales and dependency on a single customer. We have approximately 25% of our revenue concentrated in this new entity, and therefore could be materially and adversely affected if Hewlett-Packard experiences a significant decline in storage revenue due to customer loss or integration issues. There is additional risk since the combined entity owns a competing LTO brand of tape drive and media. The combined Hewlett-Packard and Compaq entity has decided to market both the LTO and Super DLTtape platforms, whereas Compaq had exclusively marketed Super DLTtape for tape backup and archiving. To the extent that the combined Hewlett-Packard and Compaq entity significantly reduces its purchases of DLTtape and Super DLTtape products in favor of LTO products, our tape drive and media revenues, operating results and financial condition would be materially and adversely affected.

Competition has increased, and may increasingly intensify, in the tape drive market as a result of competitors introducing tape drive products based on new technology standards and on DLTtape technology, which could materially and adversely affect our business, financial condition and results of operations.

We compete with companies that develop, manufacture, market and sell tape drive products. Our principal competitors include Exabyte Corporation ("Exabyte"), Hewlett-Packard, IBM Corporation ("IBM"), Seagate Technology Inc. ("Seagate"), Sony Corporation and Storage Technology Corporation ("StorageTek"). These competitors are aggressively trying to develop new tape drive technologies to compete more successfully with products based on DLTtape technology. Hewlett-Packard, IBM and Seagate have formed a consortium to develop and have developed new linear tape drive products (LTO). These products target the high-capacity data back-up market and compete with our products based on Super DLTtape technology. This competition has resulted in a trend, which is expected to continue, toward lower prices and margins earned on our DLTtape and Super DLTtape drives and media. In addition, the merger between Hewlett-Packard and Compaq has resulted in a larger competitor in the tape drive market with greater resources, a potentially greater market reach with a product that competes directly with our Super DLTtape drives and Super DLTtape media. These factors when combined with the current economic environment, which has resulted in reduced shipments of our own tape drives, and tape drives in general, could result in a further reduction in our prices, volumes and margins, which could materially and adversely impact our business, financial condition and results of operations.

Competition has increased, and may increasingly intensify, and sales have trended lower in the tape library market as a result of current economic conditions, and, if these adverse trends continue or worsen, our business, financial condition and operating results may be materially and adversely affected.

Our tape library products compete with product offerings of Advanced Digital Information Corporation, Exabyte, Hewlett-Packard, Overland Data Inc. and StorageTek, which also offer tape automation systems incorporating DLTtape and Super DLTtape technology as well as new linear tape technology. In addition, the merger between Hewlett-Packard and Compaq has resulted in a larger competitor in the tape automation market with greater resources and a potentially greater market reach. Current economic conditions are characterized by lower information technology investment, particularly for higher priced products, such as high-end tape automation systems. However, more recently, even competitors that derive a significant percentage of their sales from lower priced tape automation products, have seen economic conditions adversely impact their quarterly sequential sales. The lower demand has also resulted in increased price competition. If this trend continues or worsens and/or if competition further intensifies, our sales and gross margins could decline further, which could materially and adversely affect our business, financial condition and results of operations.

Competition from alternative storage solutions that compete with our products may increase and, as a result, our business, financial condition and operating results may be materially and adversely affected.

Our products, particularly tape products, including tape drives and automation systems, also compete with other storage technologies, such as hard disk drives. Hard disk drives have experienced a trend toward lower prices while capacity and performance have increased. If hard disk drive costs decline far more rapidly than tape drive and media costs, the competition resulting from hard disk drive based storage solutions may increase. As a result, our business, financial condition and operating results may be materially and adversely affected.

We do not control licensee pricing or licensee sales of tape media cartridges and, as a result, our royalty revenue may decline, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

We receive a royalty fee based on sales of tape media cartridges by Fuji, Maxell, Sony and Imation. Under our license agreements with these companies, each of the licensees determines the pricing and number of units of tape media cartridges that it sells. In addition, other companies will begin to sell tape media cartridges under license agreements. As a result, our royalty revenue will vary depending on the level of sales and prices set by the licensees and other licensees. In addition, lower prices set by licensees could require us to lower our prices on direct sales of tape media cartridges, which would adversely impact our margins on this product. As a result, our business, financial condition and operating results may be materially and adversely affected.

Our royalty and media revenue is dependent on an installed base of tape drives that utilize Super DLTtape and DLTtape media cartridges, and, if the installed base declines, or if competing media products gain market share from us, media and royalty revenue may decline, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

Competition from other tape or storage technologies that use their own media could result in reduced sales of Super DLTtape and DLTtape drives and is lowering the installed base of tape drives that utilize DLTtape media. Since we earn a royalty from media consumed by the installed base of tape drives, this reduced installed tape drive base could result in a reduction in our media and royalty revenue. This could materially and adversely affect our business, financial condition and results of operations.

Our operating results depend on new product introductions, which may not be successful, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

To compete effectively, we must continually improve existing products and introduce new ones. We have devoted and expect to continue to devote considerable management and financial resources to these efforts. We cannot provide assurance that:

- We will introduce any of these new products in the time frame we currently forecast;
- We will not experience technical, quality, performance-related or other difficulties that could prevent or delay the introduction of, and market acceptance of, these new products;

- Our new products will achieve market acceptance and significant market share, or that the markets for these products will grow as we have anticipated;
- Our new products will be successfully or timely qualified with our customers by meeting customer performance and quality specifications because a successful and timely customer qualification must occur before customers will place large product orders; or
- We will achieve high volume production of these new products in a timely manner, if at all.

Reliance on a limited number of third-party suppliers could result in significantly increased costs and delays in the event these suppliers experience shortages or quality problems, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

We depend on a limited number of suppliers for components and sub-assemblies, including recording heads, media cartridges and integrated circuits, all of which are essential to the manufacture of tape drives and tape automation systems.

We currently purchase the DLTtape and Super DLTtape media cartridges that we sell primarily from Imation, Fuji Photo Film Co., Ltd. ("Fuji") and from Hitachi Maxell Ltd. ("Maxell"). We cannot provide assurance that Imation, Fuji or Maxell will continue to supply an adequate number of high quality media cartridges in the future. If component shortages occur, or if we experience quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased, and as a result, our business, financial condition and operating results could be materially and adversely affected. In addition, we qualify only a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

Furthermore, our main supplier of tape heads is located in China. Political instability, trade restrictions, changes in tariff or freight rates or currency fluctuations in China could result in increased costs and delays in shipment of our products and could materially and adversely impact our business, financial condition and operating results.

If we fail to protect our intellectual property or if others use our proprietary technology without authorization, our competitive position may suffer.

Our future success and ability to compete depends in part on our proprietary technology. We rely on a combination of copyright, patent, trademark and trade secrets laws and nondisclosure agreements to establish and protect our proprietary technology. We currently hold 111 United States patents and have 81 United States patent applications pending. However, we cannot provide assurance that patents will be issued with respect to pending or future patent applications that we have filed or plan to file or that our patents will be upheld as valid or will prevent the development of competitive products or that any actions we have taken will adequately protect our intellectual property rights. We generally enter into confidentiality agreements with our employees, consultants, resellers, customers and potential customers, in which we strictly limit access to, and distribution of, our software, and further limit the disclosure and use of our proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain or use our products or technology. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

Third party infringement claims could result in substantial liability and significant costs, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

From time to time, third parties allege our infringement of and need for a license under their patented or other proprietary technology. While we currently believe the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations, or liquidity, the ultimate outcome of any litigation is uncertain. Adverse resolution of any third party infringement claim could subject us to substantial liabilities and require us to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome. As a result, our business, financial condition and operating results may be materially and adversely affected.

Pursuant to an operating lease, we have an obligation for a guaranteed value to the lessor at the end of the lease term, which could result in our being required to make a significant cash payment to the lessor, and if we are required to do so, our business, financial condition and results of operations could be materially and adversely impacted.

We have a lease for our Colorado Springs facility, which is accounted for as an operating lease. At the end of the lease term, we have the option either to refinance the lease, purchase the facility, or to cause the facility to be sold to a third party, with us retaining an obligation to the lessor for the guaranteed value. The proceeds of a sale to a third party would be used to satisfy the $62.8 million value guaranteed to the lessor at the end of the lease term. In the event of sale to a third party, we would be liable for the difference between the proceeds resulting from the sale of the facility and the $62.8 million obligation to the lessor. We completed a third party valuation appraisal of the leased facility in the fourth quarter of fiscal year 2002, which indicated a contingent lease obligation of approximately $12.5 million. Of this $12.5 million total, we recorded a charge of $11.2 million, which reflects the difference between the current estimated market value of vacant facilities in Colorado Springs and the value guaranteed to the lessor. The remaining $1.3 million relates to the portion of the facilities we still occupy and is being amortized over the remaining lease period. If we were unable to receive consideration in the event of a sale of the facility close to the current appraised value, we would be liable for a cash payment in addition to the $12.5 million total, which could have a material adverse impact on our financial condition and liquidity.

This lease commitment also requires us to maintain specified financial covenants. In the first quarter of fiscal 2003, we violated certain of these financial covenants. On August 9, 2002, we received a waiver from the lessor relating to these covenant violations as of June 30, 2002. In the second quarter of fiscal year 2003, we violated the Tangible Net Worth, Leverage Ratio and EBITDA financial covenants of the credit line. On October 25, 2002, we received a waiver of these covenant violations from the bank group for the quarter ended September 29, 2002. As part of the waiver agreement, Quantum has agreed to pay $12.5 million to the lessor in the third quarter of fiscal year 2003, which is the difference between the current estimated market value of the facilities and the value guaranteed to the lessor of $62.8 million. We do not anticipate that we will be in compliance with these covenants in subsequent quarters of fiscal year 2003. If we continue to fail to comply with these financial covenants and are unable to obtain a waiver, or amend the lease, for such future non-compliance, the lessor could terminate the lease, resulting in either the acceleration of our obligation to purchase the leased facility or Quantum having to sell the leased facility, which could have an adverse affect on our financial condition and liquidity.

We are currently not in compliance with certain financial covenants under our credit facility, and we do not anticipate that we will be in compliance with these covenants in the future; as a result of this non-compliance, we do not anticipate that we will be able to use this credit facility, which could materially and adversely impact our financial condition and liquidity.

In April 2000, we entered into an unsecured senior credit facility with a group of nine banks, providing a $187.5 million revolving credit line that expires in April 2003. On August 9, 2002, we received a waiver from the bank group for covenant violations as of June 30, 2002. During the quarter ended September 29, 2002, we violated the Tangible Net Worth, Leverage Ratio and EBITDA financial covenants of the credit line. On October 25, 2002, we received a waiver of these covenant violations from the bank group for the quarter ended September 29, 2002. We are required to satisfy these covenants in subsequent quarters. We do not anticipate that we will be in compliance with these covenants in the subsequent quarters of fiscal year 2003. The waiver disallows any new borrowings or new letters of credit to be issued until we are in compliance with the financial and reporting covenants or we obtain approval from the majority of the banks participating in the line of credit. If in future quarters we are in violation of any financial or reporting covenant and are issued a notice of default letter from the bank group, the credit line could become unavailable and any amounts outstanding could become immediately due and payable. In addition, if we are unsuccessful in securing a waiver in subsequent quarters, we could also lose access to the $38.2 million standby letter of credit contained within our credit line facility and have to restrict $38.2 million of our cash to cover this existing letter of credit. This could have a material and adverse impact on our liquidity.

Without the availability of this credit facility, we will have to rely on operating cash flows and debt or equity arrangements other than the unsecured senior credit facility (if such alternative funding arrangements are available to us at all) in order to maintain sufficient liquidity. If we are not able to obtain sufficient cash from our operations or from these alternative funding sources, our operations, financial condition and liquidity may be materially and adversely affected.

We expect our acquisition of Benchmark to be completed during the third quarter of fiscal year 2003. If we fail to successfully integrate this acquisition, it could harm our business, financial condition and operating results.

As a part of our business strategy, we have agreed to acquire Benchmark, whose business is complementary to our DLT group's products and technologies. Any acquisition is accompanied by the risks commonly encountered in acquisitions of companies. These risks include:

- Difficulties in assimilating its operations and personnel;
- Diversion of management's attention from ongoing business concerns;
- The potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- Additional expense associated with amortization of acquired intangible assets;
- Insufficient revenues to offset increased expenses associated with the acquisition;
- Maintenance of uniform standards, controls, procedures and policies;
- Impairment of existing relationships with employees, suppliers and customers as a result of the integration of new personnel;
- The possibility that we may not receive a favorable return on our investment, the original investment may become impaired, and/or incur losses from these investments; and
- Assumption of unknown liabilities or other unanticipated events or circumstances.

We cannot provide assurance that we will be able to successfully integrate the Benchmark business and our failure to do so could harm our business, financial condition and operating results.

We may engage in future acquisitions of companies, technologies or products, and the failure to integrate any future acquisitions could harm our business, financial condition and operating results.

As a part of our business strategy, we expect to make additional acquisitions of, or significant investments in, complementary companies, products or technologies. Any future acquisitions would be accompanied by the risks commonly encountered in acquisitions of companies. These risks include:

- Difficulties in assimilating the operations and personnel of the acquired companies;
- Diversion of management's attention from ongoing business concerns;
- The potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- Additional expense associated with amortization of acquired intangible assets;
- Insufficient revenues to offset increased expenses associated with acquisitions;
- Maintenance of uniform standards, controls, procedures and policies;
- Impairment of existing relationships with employees, suppliers and customers as a result of the integration of new personnel;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- The possibility that we may not receive a favorable return on our investment, the original investment may become impaired, and/or incur losses from these investments;
- Dissatisfaction or performance problems with an acquired company;
- The cost associated with acquisitions; and
- Assumption of known or unknown liabilities or other unanticipated events or circumstances.

We cannot provide assurance that we will be able to successfully integrate any business, products, technologies or personnel that we may acquire in the future, and our failure to do so could harm our business, financial condition and operating results.

We expect to begin outsourcing tape drive manufacturing to Jabil during the third quarter of fiscal year 2003. Our ability to meet customer demand depends on our ability to obtain timely deliveries of parts from our suppliers; as a result, if we cannot obtain these parts in such a manner, such a delay could materially and adversely impact our business, financial condition and results of operations.

We face the following risks as a result of our decision to outsource tape drive manufacturing to Jabil:

- Sole source of product supply. Jabil would become our sole source of supply for all of our tape drives and certain tape automation products. Because we are relying on one supplier, we are at greater risk of experiencing component shortages or other delays in customer deliveries that could result in customer dissatisfaction, which could materially damage customer relationships and result in lost revenue.

- Cost and purchase commitments. We may not be able to control the costs we would be required to pay Jabil for the products they manufacture for us. Jabil procures inventory to build our products based upon a forecast of customer demand that we provide. We would be responsible for the financial impact on Jabil of any reduction or product mix shift in the forecast relative to materials that Jabil had already purchased under a prior forecast. Such a variance in forecasted demand could require us to pay Jabil for finished goods in excess of current customer demand or for any increased costs for excess or obsolete inventory. As a result, we could experience reduced gross margins and larger operating losses based on these purchase commitments.

- Quality. We will have limited control over the quality of products produced by Jabil. Therefore, the quality of the products may not be acceptable to our customers and could result in customer dissatisfaction, lost revenue, and increased warranty costs.

We have signed an agreement to outsource our manufacturing operations in Malaysia to Jabil, a third party contract manufacturer, which has the potential to affect our tax status in Malaysia and which could therefore materially and adversely affect our business, financial condition and results of operations.

We were granted strategic pioneer tax status beginning in December 2000 contingent on us meeting five separate conditions linked to investments in the Malaysian economy. While we have actively worked to meet each of these conditions, changes in the business environment have meant that we have not yet fully met these conditions as these conditions assumed a five-year profile of investment. Based on the status of current discussions with the Malaysian government, we believe that the probability of assessment of additional tax liability is unlikely given that the third-party contract manufacturer already has strategic pioneer tax status and since there is no change in our business as a result of this transfer of manufacturing operations. However, were the Malaysian government to revoke Quantum's strategic pioneer tax status in its entirety, then the maximum potential tax liability that could be assessed would be $15 million, which could materially and adversely affect our business, financial condition and results of operations.

As consideration for the disposition of the material assets of our NAS business, in addition to cash, we received a significant portion of the consideration in the form of restricted stock and a debt instrument issued by the buyer, a privately held company.

In consideration for the sale of the material assets of our NAS business, we received approximately $4.7 million in cash, $3.9 million in restricted equity securities (with an option to purchase an additional $1.8 million) and a secured promissory note issued by the buyer, a privately held company, for $2.4 million. The equity securities are "restricted securities", as that term is defined in Rule 144 under the Securities Act of 1933, as amended, and, therefore, are subject to substantial restrictions on the sale or disposition of such shares, many of which restrictions are contingent on or governed by matters solely within the control of the privately-held company. Similarly, the secured promissory note may become subject to the priority of a future senior lender and does not become due and payable until May 2003 and, even then, is only partly due and payable. Because of the nature of the privately held issuer as well as the restrictions on our ability to transfer these securities, there is no public market for these securities.

We generally record our investment in an early development stage company's equity and debt securities on a cost basis, adjusted for other than temporary impairment. The restricted stock and promissory note we received in the NAS disposition will have a combined carrying value of $6.3 million but could lose value and become worthless if the buyer fails to profitably achieve its business plans or is not able to obtain adequate funding to do so. And because there is no market in these securities, we would not be able to hedge or otherwise mitigate any loses on these securities. If the buyer is not successful in achieving its business plan, we could be required to write down some or all of the value of these investments, which could have a material and adverse impact on our financial condition and results of operations.

Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute between us and Maxtor. In the event this dispute is not resolved favorably, we could incur significant costs that could have a material adverse effect on our business, financial condition and operating results.

Pursuant to a tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of HDD, Maxtor and we provided for the allocation of certain liabilities related to taxes. Maxtor and we presently disagree about the amounts owed by each party under this Agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that we will be successful in asserting our position. If disputes regarding reimbursable amounts cannot be resolved favorably, we may incur costs, including both litigation as well as the payment of the disputed amounts, which could have a material adverse effect on our business, financial condition and operating results.

Maxtor's failure to perform under the indemnification provisions of a tax sharing and indemnity agreement entered into with us providing for payments to us that relate to tax liabilities, penalties, and interest resulting from the conduct of our business prior to the HDD disposition date could have a material adverse effect on our business, financial condition and operating results.

Under a tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of HDD, Maxtor has agreed to assume responsibility for payments related to certain taxes, penalties, and interest resulting from the conduct of business by the Quantum DSS group for all periods before our issuance of tracking stock and the conduct of the Quantum HDD group for all periods before the disposition of HDD to Maxtor. If audit adjustments are successfully asserted with respect to such conduct, and if Maxtor fails to indemnify us under this obligation or is not able to pay the reimbursement in full, we would nevertheless be obligated, as the taxpayer, to pay the tax. As a result, we could experience a material adverse effect on our business, financial condition and operating results.

Maxtor is a publicly traded company (NYSE symbol: MXO) that has been incurring financial operating losses and has experienced a decreasing cash position. If Maxtor were unable to pay its share of any obligations, we would be required to pay and that would have a material adverse impact on our results of operations and financial position.

Maxtor's failure to perform under the indemnification agreement in connection with our convertible debt and contingent liabilities would harm our business, financial condition and operating results.

Maxtor has agreed to assume responsibility for payments of up to $95.8 million of our convertible debt. If Maxtor fails to indemnify us under the indemnification agreement for Maxtor's portion of the convertible debt, we would have to deplete our existing cash resources or borrow cash to make the payments. As a result, our business, financial condition and operating results could be materially and adversely affected.

We may have contingent liabilities for some obligations assumed by Maxtor, including real estate and litigation, and Maxtor's failure to perform under these obligations could result in significant costs to us that could have a materially adverse impact on our business, financial condition and operating results.

The disposition of HDD may be determined not to be tax-free, which would result in us or our stockholders, or both, incurring a substantial tax liability, which could materially and adversely affect our business, financial condition and results of operations.

Maxtor and Quantum have agreed not to request a ruling from the Internal Revenue Service (the "IRS"), or any state tax authority confirming that the structure of the combination of Maxtor with HDD will not result in any federal income tax or state income or franchise tax to Quantum or the previous holders of HDD common stock. Instead, Maxtor and we have agreed to effect the disposition and the merger on the basis of an opinion from Ernst & Young LLP, our tax advisor, and a tax opinion insurance policy issued by a syndicate of major insurance companies to us covering up to $340 million of tax loss caused by the disposition and merger.

If the disposition of HDD is determined not to be tax-free and the tax opinion insurance policy does not fully cover the resulting tax liability, we or our stockholders or both could incur substantial tax liability, which could materially and adversely affect our business, financial condition and results of operations.

The tax opinion insurance policy issued in conjunction with the disposition of HDD does not cover all circumstances under which the disposition could become taxable to us, and as a result, we could incur an uninsured tax liability, which could materially and adversely affect our business, financial condition and results of operations.

In addition to customary exclusions from its coverage, the tax opinion insurance policy does not cover any federal or state tax payable by us if the disposition becomes taxable to us as a result of:

- A change in relevant tax law;
- An acquisition representing a 50% or greater interest in Quantum which began during the one-year period before and six-month period following the disposition, whether or not approved by our board of directors; or
- An acquisition representing a 50% or greater interest in Maxtor which began during the one-year period before and six-month period following the disposition, whether or not approved by Maxtor's board of directors.

If any of these events occur, we could incur uninsured tax liability, which could materially and adversely affect our business, financial condition and results of operations.

If we incur an uninsured tax liability as a result of the disposition of HDD, our financial condition and operating results could be negatively affected.

If the disposition of HDD were determined to be taxable to Quantum, we would not be able to recover an amount to cover the tax liability either from Maxtor or under the insurance policy in the following circumstances:

- If the tax loss were not covered by the policy because it fell under one of the exclusions from the coverage under the tax opinion insurance policy described above, insurance proceeds would not be available to cover the loss.
- If the tax loss were caused by our own acts or those of a third party that made the disposition taxable (for instance, an acquisition of control of Quantum which began during the one-year period before and six-month period following the closing), Maxtor would not be obligated to indemnify us for the amount of the tax liability.
- If Maxtor were required to reimburse us for the amount of the tax liability according to its indemnification obligations under the HDD disposition, but was not able to pay the reimbursement in full, we would nevertheless be obligated, as the taxpayer, to pay the tax (refer to the following risk factor).

In any of these circumstances, the tax payments due from us could be substantial. In order to pay the tax, we would have to either deplete our existing cash resources or borrow cash to cover our tax obligation. Our payment of a significant tax prior to payment from Maxtor under Maxtor's indemnification obligations, or in circumstances where Maxtor has no payment obligation, could harm our business, financial condition and operating results.

Because the disposition of HDD would be taxable to us if either Maxtor or we undergo a change of control, we may be a less attractive acquisition candidate for a period of time after the disposition of HDD and, as a result, our business and stockholder value could be negatively impacted.

Under the federal tax rules applicable to the disposition, if a 50% or greater interest in either Maxtor or Quantum is acquired in conjunction with negotiations that began one-year before and six months after the disposition, the disposition could become taxable to us under circumstances not covered by the tax opinion insurance policy and/or under which Maxtor would be required to pay us for the amount of the tax. Neither Maxtor nor we will have control over all the circumstances under which an acquisition could occur. Because of the tax consequence of an acquisition and change of control, we:

- May have to forego significant growth and other opportunities;
- May not be deemed an attractive acquisition target, reducing opportunities for our stockholders to sell or exchange their shares in attractive transactions which might otherwise be proposed; and
- Will be restricted in our ability to initiate a business combination that our board of directors might wish to pursue because we will not be able to structure the transaction as an acquisition, even if that would otherwise be the most attractive structure.

The foregoing effects of the restriction on an acquisition of Quantum could have a materially adverse effect on our business and stockholder value.

Our business, financial condition and operating results may be harmed as a result of operating solely as a tape drive and storage solutions business.

Prior to the disposition of HDD on April 2, 2001, our operations consisted of the DLT group, the Storage Solutions group and HDD. Operating results of the DLT and Storage Solutions groups alone may be materially and adversely affected by the loss of one or more of the following benefits that HDD had contributed to Quantum:

- The ability to leverage the expertise of HDD in areas related to HDD's core competency in hard disk drives;
- The opportunity to jointly develop various products, such as online storage solutions;
- The ability to reduce the cost of data storage solutions more effectively;
- The ability to use the goodwill and brand recognition associated with HDD;
- The opportunity to take advantage of a larger market capitalization; and
- The opportunity to take advantage of the benefits of diversification associated with a single company serving the tape drive, storage solutions and hard disk drive markets.

We may experience difficulty attracting and retaining quality employees, which may hurt our ability to operate our business effectively.

Our ability to maintain our competitive technological position will depend, in large part, on our ability to attract and retain highly qualified technical and managerial personnel. The combination of the DLT and Storage Solutions groups and HDD resulted in faster growth and greater scale for Quantum. After the disposition of HDD, without the benefits of a combined business, we may not experience the same success in attracting and retaining quality employees. Lack of success in attracting and retaining qualified employees could lead to lower than expected operating results and delays in the introduction of new products and could have a negative effect on our ability to support customers.

Historical financial information regarding Quantum may not be representative of our future results solely as a tape drive and storage solutions business.

The historical financial information regarding Quantum does not necessarily reflect what our financial position, operating results, and cash flows would have been had we existed solely as a tape drive and storage solutions business during the periods presented. In addition, the historical information is not necessarily indicative of what our operating results, financial position and cash flows will be in the future.

Our quarterly operating results could fluctuate significantly, and past quarterly operating results should not be used to predict future performance.

Our quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. As a result, our past quarterly operating results should not be used to predict future performance. Quarterly operating results could be materially and adversely affected by a number of factors, including, but not limited to:

- An inadequate supply of tape media cartridges;
- Customers canceling, reducing, deferring or rescheduling significant orders as a result of excess inventory levels, weak economic conditions or other factors;
- Declines in network server demand;
- Failure to complete shipments in the last month of a quarter during which a substantial portion of our products are typically shipped; or
- Increased competition.

Our non-U.S. locations represent a significant portion of our manufacturing and sales operations; we are increasingly exposed to risks associated with conducting our business internationally.

We manufacture and sell our products in a number of different markets throughout the world. As a result of our global manufacturing and sales operations, we are subject to a variety of risks that are unique to businesses with international operations of a similar scope, including the following:

- Adverse movement of foreign currencies against the U.S. dollar (in which our results are reported);
- Import and export duties and value-added taxes;
- Import and export regulation changes that could erode our profit margins or restrict our exports;
- Potential restrictions on the transfer of funds between countries;
- Inflexible employee contracts in the event of business downturns; and
- The burden and cost of complying with foreign laws.

In addition, we have operations in several emerging or developing economies that have a potential for higher risk than in the developed markets. The risks associated with these economies include, but are not limited to, political risks and natural disasters. In particular, our transfer of our tape drive manufacturing operations from the United States to our subsidiary in Penang, Malaysia, and subsequently to an outsourced manufacturer in Malaysia, has exposed an additional portion of our manufacturing capacity to such political and climactic risks. Political instability, including the threat of terrorism, or a natural disaster in Malaysia or any other foreign market in which we operate could materially and adversely affect our business, financial condition and results of operations.

The Malaysian government adopted currency exchange controls, including controls on its currency, the ringgit, held outside of Malaysia. The Malaysian government has also established a fixed exchange rate for the ringgit against the U.S. dollar. The fixed exchange rate provides a stable rate environment when applied to local expenses denominated in ringgit. The long-term impact of such controls on us is not predictable due to the dynamic economic conditions that are also affecting (and affected by) other economies.

We are exposed to fluctuations in foreign currency exchange rates and an adverse change in foreign currency exchange rates relative to our position in such currencies could have a materially adverse impact on our business, financial condition and results of operations.

We do not use derivative financial instruments for speculative purposes. Our policy is to hedge our foreign currency-denominated transactions in a manner that substantially offsets the effects of changes in foreign currency exchange rates. Presently, we use foreign currency obligations to match and offset net currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency obligations. We have used in the past, and may use in the future, foreign currency forward contracts to hedge our exposure to foreign currency exchange rates.

Our international operations can act as a natural hedge when both operating expenses and sales are denominated in local currencies. In these instances, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar would result in lower sales when translated to U.S. dollars, operating expenses would also be lower in these circumstances. Also, since an insignificant amount of our net sales for the six months ending on September 29, 2002 are denominated in currencies other than the U.S. dollar, we do not believe that our total foreign exchange rate exposure is significant. Nevertheless, an increase in the rate at which a foreign currency is exchanged for U.S. dollars would require more of that particular foreign currency to equal a specified amount of U.S. dollars than before such rate increase. In such cases, and if we were to price our products and services in that particular foreign currency, we would receive fewer U.S. dollars than we would have received prior to such rate increase for the foreign currency. Likewise, if we were to price our products and services in U.S. dollars while competitors priced their products in a local currency, an increase in the relative strength of the U.S. dollar would result in our prices being uncompetitive in those markets. Such fluctuations in currency exchange rates could materially and adversely affect our business, financial condition and results of operations.

Many of our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other natural disaster could cause damage to our facilities and equipment, which could require us to curtail or cease operations.

Many of our facilities are located in Northern and Southern California, near known earthquake fault zones and are, therefore, vulnerable to damage from earthquakes. In October 1989, a major earthquake that caused significant property damage and a number of fatalities struck Northern California. In addition, in 1994, a major earthquake that caused significant property damage and a number of fatalities struck Southern California. We are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities could be seriously, or completely, impaired. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to **Part II Item 7A**, Quantitative and Qualitative Disclosures About Market Risk, in Quantum's Annual Report on Form 10-K for the year ended March 31, 2002, filed with the Securities and Exchange Commission on July 1, 2002.

Item 4. Controls and Procedures

(a) **Evaluation of disclosure controls and procedures.** Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act") are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) **Changes in internal controls.** There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

QUANTUM CORPORATION

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The information contained in note 10 to the condensed consolidated financial statements is incorporated into this Part II, Item 1 by reference.

Item 2. Changes in Securities

On October 28, 2002, the Company amended its Amended and Restated Preferred Shares Rights Agreement, dated as of August 4, 1999 between the Company and Computershare, Inc. (the successor to Harris Trust and Savings Bank) as rights agent. Prior to the amendment of this agreement, an acquisition of shares by a third party would trigger the issuance of the preferred shares to holders of Quantum common stock under the Rights Agreement if the third party acquired more than 20% of Quantum's outstanding common stock. Solely as this 20% threshold relates to Private Capital Management, L.P., a stockholder and affiliate of Quantum, the Company has amended the Rights Agreement to allow Private Capital Management to acquire up to 25% of the outstanding common stock of Quantum without triggering the issuance of the preferred shares in exchange for its entering into a Stockholder Agreement with Quantum that places certain restrictions on Private Capital Management with respect to its ownership and control of its shares of Quantum's common stock. The effect of this amendment to the Rights Agreement on holders of Quantum's common stock is that it is less likely that the preferred shares under the Rights Agreement will be issued to the holders of Quantum's common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

An annual meeting of the stockholders of Quantum was held on September 12, 2002. Following are the matters voted upon at the meeting, and the number of votes cast for, against or withheld, as well as the number of abstentions for each such matter:

Matter 1. Proposal to elect seven directors to serve until the next Annual Meeting of Stockholders or until their successors are elected and qualified.

	For	Withheld
Stephen M. Berkley	133,775,314	2,826,959
David A. Brown	133,778,170	2,824,103
Michael A. Brown	115,872,752	20,729,521
Edward M. Esber, Jr.	130,083,848	6,518,425
Kevin J. Kennedy	130,437,646	6,164,627
Edward J. Sanderson	132,285,888	4,316,385
Gregory W. Slayton	130,085,846	6,516,427

Matter 2. Proposal to ratify the appointment of Ernst & Young LLP as independent auditors of Quantum for the fiscal year ending March 31, 2003.

For: 118,747,156 Against: 17,325,158 Abstained: 524,659

Item 5. Other information

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

4.1	First Amendment to the Amended and Restated Preferred Shares Rights Agreement and Certification Of Compliance With Section 27 Thereof, dated as of October 28, 2002.
4.2	Stockholder Agreement, dated as of October 28, 2002, by and between Quantum Corporation and Private Capital Management.
10.1	Asset Purchase Agreement, dated as of August 29, 2002, by and between Quantum Peripherals (M) Sdn. Bhd. and Jabil Circuit Sdn. Bhd.
10.2	Agreement and Plan of Merger, dated as of September 5, 2002, by and among Quantum Corporation, Benchmark Storage Innovations, Inc. and Jesse Aweida, as Stockholders' Agent.
10.3	First Amendment to Agreement and Plan of Merger, dated as of November 1, 2002, by and among Quantum Corporation, Benchmark Storage Innovations, Inc. and Jesse Aweida, as Stockholders' Agent.
10.4	Separation Agreement, dated as of September 3, 2002, between Quantum Corporation and Michael A. Brown.
10.5	Employment Agreement, dated as of September 3, 2002, between Quantum Corporation and Michael A. Brown.
10.6	Amendment No. 1 to the Quantum Corporation 1993 Long-Term Incentive Plan (as Amended May 29, 2001).
10.7 (*)	Asset Purchase Agreement, by and between Quantum Corporation and Broadband Storage, Inc., dated as of October 7, 2002, as amended on October 28, 2002.
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.
99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.

(*) Incorporated by reference from Exhibit 2.1 of Quantum's Current Report on Form 8-K filed with the Commission on November 12, 2002.

(b) Reports on Form 8-K

The Company filed the following Current Report on Form 8-K during the three months ended September 29, 2002:

On August 14, 2002, Quantum Corporation filed a Current Report on Form 8-K, reporting under Item 9 that on August 14, 2002, each of Michael A. Brown, Chief Executive Officer of the Company (the Company's principal executive officer), and Michael J. Lambert, Chief Financial Officer of the Company (the Company's principal financial officer), submitted to the Securities and Exchange Commission sworn statements pursuant to Securities and Exchange Commission Order No. 4-460 and also provided the certification required pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).

On November 12, 2002, Quantum Corporation filed a Current Report on Form 8-K, reporting that on October 28, 2002, Quantum Corporation completed the sale of the Network Attached Storage ("NAS") business to SNAP Appliance, Inc. ("SNAP") f/k/a Broadband Storage, Inc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

QUANTUM CORPORATION
(Registrant)

Date: November 12, 2002

By: /s/ Michael J. Lambert

Michael J. Lambert
Executive Vice President, Finance
and Chief Financial Officer

CERTIFICATIONS

I, Richard Belluzo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Richard Belluzo

Richard Belluzo
Chief Executive Officer

I, Michael J. Lambert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Michael J. Lambert

Michael J. Lambert
Executive Vice President, Finance
and Chief Financial Officer

FIRST AMENDMENT TO THE AMENDED AND RESTATED PREFERRED SHARES RIGHTS AGREEMENT AND CERTIFICATION OF COMPLIANCE WITH SECTION 27 THEREOF

Pursuant to Section 27 of the Amended and Restated Preferred Shares Rights Agreement (the "Agreement"), dated as of August 6, 1999, between Quantum Corporation, a Delaware corporation (the "Company"), and Computershare, Inc. as rights agent (the "Rights Agent"), successor to Harris Trust and Savings Bank, the Company and the Rights Agent hereby amend the Agreement as of October 28, 2002, as provided below:

Section 1. Certain Definitions. Section 1 of the Agreement shall be amended as follows:

"(a) 'Acquiring Person' shall mean any such Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding, but shall not include the Company, any Subsidiary of the Company or any employee benefit plan of the Company or of any Subsidiary of the Company, or any entity holding Common Shares for or pursuant to the terms of any such plan (provided, however, that Private Capital Management, Inc. and its Affiliates and Associates shall not be deemed to be an Acquiring Person until such time as Private Capital Management, Inc. and its Affiliates and Associates shall be the Beneficial Owner of (i) 25% or more of the DSSG Common Shares outstanding or (ii) 25% or more of the HDDG Common Shares then outstanding, or until such time as Private Capital Management, Inc. and its Affiliates and Associates announce a tender offer to acquire (i) 25% or more of the DSSG Common Shares outstanding or (ii) 25% or more of the HDDG Common Shares outstanding (together, the "Limitations")). Notwithstanding the foregoing, no Person shall be deemed to be an Acquiring Person as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding (or with respect to Private Capital Management, Inc. and its Affiliates and Associates, increases such proportionate number of shares to (i) 25% or more of the DSSG Common Shares then outstanding or (ii) 25% or more of the HDDG Common Shares then outstanding); provided, however, that if a Person shall become the Beneficial Owner of (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding (or with respect to Private Capital Management, Inc. and its Affiliates and Associates, shall become the Beneficial Owner of (i) 25% or more of the DSSG Common Shares then outstanding or (ii) 25% or more of the HDDG Common Shares then outstanding) by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Shares in Common Shares or pursuant to a split or subdivision of the outstanding Common Shares), then such Person shall be deemed to be an Acquiring Person unless upon becoming the Beneficial Owner of such additional Common Shares of the Company such Person does not beneficially own (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding (or with respect to Private Capital Management, Inc. and its Affiliates and Associates, does not beneficially own (i) 25% or more of the DSSG Common Shares then outstanding or (ii) 25% or more of the HDDG Common Shares then outstanding). Notwithstanding the foregoing, (i) if the Company's Board of Directors determines in good faith that a Person who would otherwise be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently

(including, without limitation, because (A) such Person was unaware that it beneficially owned a percentage of the Common Shares that would otherwise cause such Person to be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), or (B) such Person was aware of the extent of the Common Shares it beneficially owned but had no actual knowledge of the consequences of such beneficial ownership under this Agreement) and without any intention of changing or influencing control of the Company, and if such Person divested or divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be or to have become an "Acquiring Person" for any purposes of this Agreement; and (ii) if, as of the date hereof, any Person is the Beneficial Owner of (x) 20% or more of the DSSG Common Shares then outstanding or (y) 20% or more of the HDDG Common Shares then outstanding (or with respect to Private Capital Management, Inc. and its Affiliates and Associates, is the Beneficial Owner of (x) 25% or more of the DSSG Common Shares then outstanding or (y) 25% or more of the HDDG Common Shares then outstanding), such Person shall not be or become an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), unless and until such time as such Person shall become the Beneficial Owner of additional Common Shares (other

than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Shares in Common Shares or pursuant to a split or subdivision of the outstanding Common Shares), unless, upon becoming the Beneficial Owner of such additional Common Shares, such Person is not then the Beneficial Owner of (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding (or with respect to Private Capital Management, Inc. and its Affiliates and Associates, is not then the Beneficial Owner of (i) 25% or more of the DSSG Common Shares then outstanding or (ii) 25% or more of the HDDG Common Shares then outstanding)."

The undersigned officer of the Company, being an appropriate officer of the Company and authorized to do so by resolution of the board of the directors of the Company dated August __, 2002, hereby certifies to the Rights Agent that this amendment is in compliance with the terms of Section 27 of the Agreement.

QUANTUM CORPORATION

By: /s/ Richard Belluzzo

Name: Richard Belluzzo
Title: Chief Executive Officer

Acknowledged and Agreed:

Computershare, Inc.,
as Rights Agent

By: /s/ Keith Bradley

Name: Keith Bradley
Title: Director, Client Services

STOCKHOLDER AGREEMENT

DATED AS OF OCTOBER 28, 2002

BY AND BETWEEN

QUANTUM CORPORATION

AND

PRIVATE CAPITAL MANAGEMENT

PCM Stockholder Agreement v3

STOCKHOLDER AGREEMENT

This Stockholder Agreement (this "Agreement") is entered into as of October 28, 2002 by and between Private Capital Management, L.P. (the "Stockholder") and Quantum Corporation, a Delaware corporation (the "Company").

A. The Stockholder and the Company acknowledge that there currently exists an Amended and Restated Preferred Shares Rights Agreement, dated as of August 4, 1999 between the Company and Computershare, Inc. (the successor to Harris Trust and Savings Bank) as rights agent, as may be amended from time to time (the "Rights Agreement").

B. Stockholder is a non-custodial, discretionary money manager that has invested in the Company's Common Stock (as defined below) on behalf of its clients, who maintain ownership of their respective shares of Common Stock.

C. As of September 10, 2002, Stockholder, including shares of Common Stock beneficially owned by its principals, is the beneficial owner of 31,098,897 shares of Common Stock.

D. On behalf of its clients, Stockholder would like the ability to purchase additional shares of Common Stock in open market purchases such that Stockholder will hold 20% or more of the outstanding Common Stock, which would, in the absence of an amendment to the Rights Agreement provided for herein, result in Stockholder becoming an Acquiring Person, as that term is defined in the Rights Agreement.

E. Stockholder is and will continue to be a valuable holder of the Company's Common Stock, and such ownership of the Common Stock by Stockholder has and will continue to benefit the Company and its stockholders. Therefore, the Company does not wish to discourage Stockholder from purchasing additional shares of Common Stock, subject to the limitations prescribed in this Agreement and the Rights Agreement, as amended in accordance with this Agreement.

F. In light of the benefits that accrue to the Company through Stockholder's continued ownership of the Common Stock, the Company and Stockholder believe that it is in their mutual best interests and the best interest of the Company's stockholders and Stockholder's clients that Stockholder's currently anticipated actions do not result in Stockholder being deemed an Acquiring Person under the Rights Agreement.

G. Therefore, the Company and Stockholder have agreed that the Company shall amend the Rights Agreement in order to modify the definition of "Acquiring Person" in the Rights Agreement such that Stockholder's currently contemplated transactions with respect to shares of the Common Stock will not cause Stockholder to be deemed to be an Acquiring Person under the Rights Agreement.

H. In consideration for the amendment of the Rights Agreement, Stockholder and the Company have agreed that this Agreement be entered into to establish certain terms and conditions concerning the Stockholder's ownership of shares of Common Stock.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, and covenants set forth in this Agreement, the Stockholder and the Company hereby agree as follows:

ARTICLE 1

DEFINITIONS

Capitalized terms used in this Agreement without definition shall have the respective meanings accorded to them in the Rights Agreement.

"Common Stock" means the Company's DSSG common stock.

"day" and "days" means a Business Day and Business Days, respectively.

"Director" means a member of the Board of Directors of the Company.

"Discretionary Power" means the ability of Stockholder (or Affiliates or Associates of Stockholder for which Stockholder may exercise voting or other discretionary authority), on behalf of its client, to (a) purchase or sell shares of Common Stock, (b) vote shares of Common Stock on any matter or proposal submitted to a vote of the Company's stockholders or (c) participate in any actions set forth in Section 5.1(a) hereof with respect to such shares, without the prior consent from such client to do any of the foregoing. "Discretionary Power" also means Stockholder's ability to take any of the actions specified in the preceding sentence with respect to shares of Common Stock held by an Affiliate or Associate of Stockholder without the prior consent from such Affiliate or Associate to take such action or actions.

"Stockholder Interest" means all shares of Common Stock beneficially owned by Stockholder or Affiliates or Associates of Stockholder for which Stockholder has the ability to exercise Discretionary Power (as well as any shares of Common Stock over which such Stockholder, Affiliate or Associate has control or oversight as a money manager) as a percentage of the total shares of Common Stock outstanding on the date of the determination of such interest.

"Transfer" means any offer, sale, contract to sell, pledge, grant of any option to purchase, short sale with respect to, or other disposition of, shares of Common Stock (other than sales through a broker in accordance with Rule 144 of the Securities Act of 1933, as amended).

ARTICLE 2

AMENDMENT OF RIGHTS PLAN

2.1 Amendment to Rights Plan. The Rights Plan shall be amended in accordance with Exhibit A, attached hereto.

ARTICLE 3

RULE 144 ACKNOWLEDGEMENT

Stockholder acknowledges that Stockholder may be deemed to be an Affiliate of the Company pursuant to Rule 144, promulgated under the Securities Act, and, as such, may only Transfer some or all of the Stockholder Interest if such Transfer is made in conformity with the requirements of Rule 144, which provides, among other things, that (1) all sales of shares of Common Stock held by an Affiliate occur through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as such term is defined under the Exchange Act), (2) certain public information about the Company be available, (3) the amount of shares of Common Stock being sold by an Affiliate during any three month period not exceed the limitations specified in Rule 144(e), and (4) such a selling Affiliate timely files a Form 144.

ARTICLE 4

VOTING AGREEMENT

4.1 Stockholder Matters. From the date hereof until the termination of this Agreement in accordance with Section 6.1, Stockholder shall, and Stockholder shall cause Affiliates and Associates of Stockholder for which Stockholder has the ability to exercise Discretionary Power:

(a) in instances where Stockholder or such Affiliates and Associates own the shares of Common Stock or have Discretionary Power over the shares of Common Stock that they hold on behalf of their respective clients, to vote any such shares of Common Stock in connection with any matter or proposal submitted to a vote of the Company's stockholders either (i) as recommended by the Board of Directors of the Company or (ii) proportionately in accordance with the votes of all other stockholders of the Company who have voted with respect to such matter or proposal; or

(b) in instances where Stockholder or such Affiliates and Associates do not own the shares of Common Stock and do not have Discretionary Power over the shares of Common Stock that they hold on behalf of their respective clients, not to advise, recommend or suggest to such clients that the clients vote their shares of Common Stock in any manner other than (i) as

recommended by the Board of Directors of the Company or (ii) proportionately in accordance with the votes of all other stockholders of the Company who have voted with respect to such matter or proposal.

4.2 Presence at Stockholder Meetings. From the date hereof until the termination of this Agreement in accordance with Section 6.1, Stockholder shall, and Stockholder shall cause Affiliates and Associates of Stockholder for which Stockholder has the ability to exercise Discretionary Power (but only to the extent that Stockholder or Stockholder's Affiliates and Associates own or have Discretionary Power to vote such shares of Common Stock) to be present in person or represented by proxy at all stockholder meetings of the Company called by the Company so that all Common Stock

of which such Persons (or such Persons' clients) are the Beneficial Owner may be counted for the purpose of determining the presence of a quorum at such meetings.

ARTICLE 5

CERTAIN COVENANTS

5.1 Proxy Solicitations. From the date hereof until the termination of this Agreement in accordance with Section 6.1,

(a) Stockholder shall not, and Stockholder shall cause Affiliates and Associates of Stockholder for which Stockholder has the ability to exercise Discretionary Power, not to (but only to the extent that Stockholder or such Affiliates and Associates own or have Discretionary Power over such shares of Common Stock), directly or indirectly, (a) solicit, initiate or participate in any "solicitation" of "proxies" or become a "participant" in any "election contest" (as such terms are defined or used in Regulation 14A under the Exchange Act, disregarding clause (iv) of Rule 14a-1(1)(2) and including any exempt solicitation pursuant to Rule 14a-2(b)(1)); call, or in any way participate in a call for, any special meeting of stockholders of the Company (or take any action with respect to acting by written consent of the Company's stockholders); request or take any action to obtain or retain any list of holders of any shares of Common Stock; or initiate or propose any stockholder proposal or participate in the making of, or solicit stockholders for the approval of, one or more stockholder proposals; (b) deposit any shares of Common Stock in a voting trust or subject them to any voting agreement or arrangements, except as provided herein; (c) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of Exchange Act) with respect to any shares of Common Stock (or any securities the ownership of which would make the owner thereof a Beneficial Owner of shares of Common Stock); (d) otherwise act to control or influence the Company or its management, board of directors, policies or affairs, including, without limitation, (i) soliciting or proposing to effect or negotiate any form of business combination, restructuring, recapitalization or other extraordinary transaction involving, or any change in control of, the Company, its Affiliates or any of their respective securities or assets, or (ii) seeking Board representation or the removal of any Directors or a change in the composition or size of the Board of Directors of the Company; (e) disclose any intent, purpose, plan or proposal with respect to this Agreement, the Company or its Affiliates or the Board, management, policies, affairs, securities or assets of the Company or its Affiliates that is inconsistent with this Agreement, including any intent, purpose, plan or proposal that is conditioned on, or would require the Company or any of its Affiliates to make any public disclosure relating to, any such intent, purpose, plan, proposal or condition; or (f) assist, advise, encourage or act in concert with any person with respect to, or seek to do, any of the foregoing; and

(b) To the extent that Stockholder or such Affiliates and Associates do not have Discretionary Power over the shares of Common Stock, Stockholder will not (and shall cause Affiliates and Associates of Stockholder for which Stockholder has the ability to exercise Discretionary Power not to) recommend, advise or suggest to such clients that the clients participate in, do or take any actions (or that such clients advise any third party to participate in, do or take any actions) enumerated in Section 5.1(a).

ARTICLE 6

MISCELLANEOUS

6.1 Termination. This Agreement and the rights and obligations of the Stockholder and the Company thereunder shall not terminate until ninety (90) calendar days after the date on which the Company receives notice from the Stockholder that the Stockholder Interest has been less than twenty percent (20%) for a period of at least fifteen (15) consecutive calendar days. After the Company receives notice pursuant to this Section 6.1, the Company shall amend the Rights Plan such that Stockholder will again be subject to the "Acquiring

Person" threshold applicable to all other holders of the Common Stock.

6.2 Notice. All notices required under this Agreement shall be deemed to have been given or made for all purposes (i) upon personal delivery, (ii) upon confirmation receipt that the communication was successfully sent to the applicable number, if sent by facsimile; (iii) one day after being sent, when sent by professional overnight courier service, or (iv) five (5) days after posting when sent by registered or certified mail. Notices to the Company shall be sent to the principal office of the Company (or at such other place as the Company shall notify the Stockholder in writing). Notices to the Stockholder shall be sent to the attention of _____ (or at such other place as the Stockholder shall notify the Company in writing).

6.3 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other parties hereto, it being understood that all parties hereto need not sign the same counterpart.

6.4 Entire Agreement; Nonassignability; Parties in Interest. This Agreement (i) constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, which shall continue in full force and effect, (ii) is not intended to confer upon any other person any rights or remedies hereunder, and (iii) may not be assigned by Stockholder other than by operation of law.

6.5 Amendments. Except as expressly provided herein, neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument referencing this Agreement and signed by the Company and the Stockholder.

6.6 Severability. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

6.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of Delaware without reference to such state's principles of conflicts of law.

6.8 Attorney's Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including, without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

6.9 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

QUANTUM CORPORATION

By: /s/ Richard Belluzzo

Rick Belluzzo, President
and Chief Executive Officer

Private Capital Management, as Stockholder

By: /s/ Robert Moses

Its:_____

Exhibit 10.1

ASSET PURCHASE AGREEMENT

BY AND BETWEEN

QUANTUM PERIPHERALS (M) SDN.BHD.

AND

JABIL CIRCUIT SDN.BHD.

Dated as of August 29, 2002

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EXHIBITS

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT, dated as of August 29, 2002 (this "Agreement"), is entered into by and between Quantum Peripherals (M) Sdn. Bhd. (Company No. 267908-V), a corporation organized under the laws of Malaysia and having its registered office at Plot 21(A), Bayan Lepas FIZ IV, 11900 Penang, Malaysia (the "Seller"), and Jabil Circuit Sdn. Bhd. (Company No. 336537-M), a corporation organized under the laws of Malaysia and having its registered office at 56, Hilir Sungai Keluang 1, Bayan Lepas FIZ IV, 11900 Penang, Malaysia (the "Purchaser"). All capitalized terms used in this Agreement shall have the meanings ascribed to such terms in Article I or as otherwise defined in this Agreement.

W I T N E S S E T H:

WHEREAS, the Seller desires to sell to the Purchaser, and the Purchaser desires to purchase from the Seller, substantially all of the operations located at the Facility conducted by the Seller at the Facility as described on Exhibit A to this Agreement (the "Acquired Operations"), which such Acquired Operations include, but are not limited to, the assembly and fulfillment operations of the products set forth on Exhibit B (the "Products") and the Purchaser is willing to assume certain obligations relating to the Acquired Operations, all upon the terms and conditions set forth in this Agreement;

WHEREAS, simultaneous with, and as a condition to, Closing, Quantum Corporation, a Delaware corporation ("QC") and Jabil Circuit, Inc., a Delaware corporation ("JC"), desire to enter into that certain Master Supply and Intellectual Property License Agreement (the "Master Supply Agreement"), the form of which is attached to this Agreement as Exhibit C;

WHEREAS, simultaneous with, and as a condition to, Closing, QC and Quantum Peripherals Europe, S.A., a Swiss corporation and Jabil Global Services, Inc. a Florida corporation and wholly owned subsidiary of JC, desire to enter into that certain Repair Services Agreement (the "Repair Services Agreement"), the form of which is attached to this Agreement as Exhibit D; and

WHEREAS, simultaneous with, and as a condition to, Closing, the Seller and the Purchaser desire to enter into that certain Lease (the "Lease"), the form of which is attached to this Agreement as Exhibit E, and that certain Transition Services Agreement (the "Transition Services Agreement"), the form of which is attached to this Agreement as Exhibit F.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual representations, warranties, covenants and agreements set forth below, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement agree as follows:

ARTICLE I

DEFINITIONS

1.01 Definitions. The following terms, as used in this Agreement, have the following meanings:

"Accounting Rules and Closing Balance Sheet Procedures" means the rules and procedures set forth in Exhibit G.

"Accounts Receivable" means all trade and non-trade receivables which in any case are payable as a result of goods sold or services provided for the operation of the Facility.

"Acquired Inventory" means each of the items of Inventory on hand at the Facility or at a facility of one or more of the Seller's suppliers located in Penang, Malaysia or Lafe, China that is usable in the Ordinary Course of Business during the 90 day period immediately following the Closing Date, based on the forecasted need for such Inventory during such 90 day period set forth in the Master Supply Agreement.

"Acquisition Documents" means this Agreement, the Repair Services Agreement, the Lease, the Master Supply Agreement, the Transition Services Agreement, the JC Guarantee, the QC Guarantee and any other document or agreement executed in connection with any of the foregoing documents, together with any Exhibits and Schedules to this Agreement, and in each case as modified, amended, supplemented, restated or renewed from time to time in accordance with their terms.

"Affiliate" means, with respect to any Person, any Person who directly or indirectly owns or controls, is owned or controlled by, or is under direct or indirect common ownership or control with such other Person. Without limiting the generality of the foregoing, a Person shall be deemed to "own" another Person if it owns, directly or indirectly, more than 50% of the capital stock or

other equity interest of such other Person.

"Applicable Law" means, with respect to any Person, any federal, state, local or foreign statute, law, ordinance, rule, administrative interpretation, regulation, order, writ, injunction, directive, judgment, decree or other requirement of any Governmental Authority applicable to such Person or any of its Affiliates or any of their respective properties, assets, officers, directors, employees, consultants or agents.

"Associate" means, when used to indicate a relationship with any Person, (a) any other Person of which such first Person is an officer, director or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities, partnership or membership interests or other comparable ownership interests issued by such other Person, (b) any trust or other estate in which such first Person has a 10% or more beneficial interest or as to which such first Person serves as trustee or in a similar fiduciary capacity and (c) any relative or spouse of such first Person who has the same home as such first Person.

"Business Day" means each day other than a Saturday, Sunday or other day on which commercial banks in Tampa, Florida, Penang, Malaysia or Kuala Lumpur, Malaysia are authorized or required by law to close.

"Change in Control" means the direct or indirect (a) acquisition of the Seller by another entity (other than an Affiliate) by means of any transaction or series of related transactions (including, but not limited to, any reorganization, merger or consolidation) that results in the transfer of fifty percent (50%) or more of the outstanding voting power of the Seller or any direct or indirect parent of the Seller or (b) a sale of all or substantially all of the assets of the Seller.

"Closing Date" means the date of the Closing.

"Contracts" means all contracts, agreements, options, leases, sales and purchase orders, commitments and other instruments of any kind, whether written or oral, to which the Seller is a party or is otherwise bound.

"Damages" means all demands, claims, actions or causes of action, assessments, losses, damages (whether direct or indirect but excluding consequential and incidental damages), deficiencies, costs, expenses, Liabilities, judgments, settlements, awards, fines, response costs, sanctions, Taxes, penalties, charges and amounts paid in settlement, including reasonable out-of-pocket costs and fees.

"Environmental, Health, and Safety Laws" means all laws (including rules, regulations, codes, and orders enacted, promulgated, published and publicly issued by any Governmental Authority) concerning pollution or protection of the environment, public health and safety, or employee health and safety.

"Extremely Hazardous Substance" means gases, liquids or solids, which are (a) explosive, compressed and liquefied gases, substances flammable, or liable to spontaneous combustion or emitting flammable gases when wet, oxidizing substances, organic peroxides, poisonous and infectious substances, radioactive substances, corrosives or any other substances seriously hazardous in any way to human health, property, safety or environmental protection; and (b) set forth as hazardous or poisonous substances under Applicable Law and the implementing rules thereof, standards referred to therein, and other legislative documents, standards, or lists promulgated, published and publicly issued by any Governmental Authority or any amendments thereto and replacements thereof.

"Facility" means the Seller's facility constructed on the Land bearing a postal address of Plot 21(A), Bayan Lepas FIZ IV, 11900 Penang, Malaysia, which said Land together with the Facility will be leased to the Purchaser to enable the Purchaser to produce the Products.

"Financials Statements" has the meaning set forth in Section 3.22 of this Agreement.

"GAAP" means United States generally accepted accounting principles, consistently applied over the periods involved and with past custom and practice.

"Governmental Approval" means an authorization, consent, approval, permit or license issued by, or a registration or filing with, or notice to, or waiver from, any Governmental Authority.

"Governmental Authority" means any foreign or domestic federal, territorial, state or local governmental authority, quasi-governmental authority, instrumentality, court, government or self-regulatory organization,

commission, tribunal or organization or any regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing, including, but not limited to, the MITI, the MIDA, the State Authority and the PDC.

"Intellectual Property" means the intellectual property rights of the Seller and any of its Affiliates (whether as owner, licensee or otherwise) arising from or in respect of the following, whether protected, created or arising under the laws of the United States or any other foreign jurisdiction:

(a) copyrights and registrations and applications therefor (collectively, "Copyrights") and mask work rights;

(b) know-how, inventions, discoveries, concepts, ideas, methods, processes, designs, formulae, technical data, drawings, specifications, customer lists, other competitive data, data bases and other proprietary and confidential information, in each case excluding any rights in respect of any of the foregoing that comprise or are protected by Copyrights, mask work rights or Patents;

(c) trademarks and service marks (whether registered (including, but not limited to, intent to use applications) or unregistered) and trade names; and

(d) patents and applications therefor, including continuation, divisional, continuation-in-part, or reissue patent applications and patents issuing thereon (collectively, "Patents").

"Inventory" means all raw materials, work in process and prepaid inventory located in Penang, Malaysia owned by the Seller and used or held for use in the production of the Products at the Facility, and any rights of the Seller to the warranties received from suppliers and any related claims, credits, rights of recovery and setoff with respect to such inventory, but only to the extent such rights are assignable, but excluding any finished products.

"Knowledge" means, with respect to any Person, the actual knowledge of such Person, after reasonable inquiry. Without limiting the generality of the foregoing, with respect to any Person that is a corporation, limited liability company, partnership or other business entity, actual knowledge shall be deemed to include the actual knowledge of all directors, officers, partners and members of any such Person. In the case of the Seller, Knowledge shall also be deemed to include the actual Knowledge of Randy Hollis, HJ Lim, Barbara Barrett, Curt Kane and Michael Falcon after reasonable inquiry.

"Land" means all that piece of land held under H.S. (D) 10080 P.T. 4659, District of Barat Daya, Mukim 12, State of Pulau Pinang Malaysia on which the Facility is constructed.

"Liability" means, with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise and whether or not the same is required to be accrued on the financial statements of such Person.

"MIDA" means the Malaysian Industrial Development Authority.

"MITI" means the Ministry of International Trade & Industry, Malaysia.

"Ordinary Course of Business" means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

"PDC" means the Penang Development Corporation, Malaysia.

"Permits" means all permits and permit applications that are necessary, or required by Applicable Law, to own, lease and/or operate the Purchased Assets or to operate the Facility substantially as it is currently operated.

"Person" means an individual and any entity, including, but not limited to, a limited liability company, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a Governmental Authority (or any department, agency, or political subdivision thereof).

"Post-Closing Tax Period" means any Tax period (or portion of any tax period) ending after the Closing Date.

"Pre-Closing Tax Period" means any Tax period (or portion of any tax period) ending on or before the close of business on the Closing Date.

"Prepaid Items" means all prepaid items, including, but not limited to,

deposits, set forth on Exhibit H.

"Purchased Assets" means all right, title and interest in and to all of the assets of the Seller located at the Facility and used in the production of the Products, including, but not limited to, (a) the assets set forth on Exhibit I, (b) tangible personal property (such as machinery, equipment, manufactured and purchased parts, goods in process, furniture, automobiles, trucks, tractors, trailers, tools, jigs, and dies, whether or not such items have any residual net book value); (c) the Acquired Inventory; (d) the Assigned Contracts (e) claims, deposits, Prepaid Items, refunds, causes of action, choses in action, rights of recovery, rights of set off, and rights of recoupment relating to any of the Assigned Contracts; (f) to the extent assignable, franchises, approvals, Permits, licenses, orders, registrations, certificates, and variances, obtained from Governmental Authorities; (g) copies of all books, records and ledgers; and (h) files, documents, correspondence, lists, plats, architectural plans, drawings, specifications, creative materials,

advertising and promotional materials, studies, reports, and other printed or written materials relating to the Purchased Assets; provided, however, that the Purchased Assets shall not include the Excluded Assets.

"Security Interest" means, with respect to any asset, any mortgage, title defect or objection, pledge, lien, encumbrance, charge, or other security interest, other than (a) mechanic's, materialmen's, and similar liens, (b) liens for Taxes not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, and (d) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"State Authority" means the state authority of the State of Penang, Malaysia.

"Taxes" means (a) all foreign, federal, state, local and other net income, gross income, gross receipts, sales, use, ad valorem, value added, intangible, unitary, capital gain, transfer, franchise, profits, license, lease, service, service use, withholding, backup withholding, payroll, employment, estimated, excise, severance, stamp, occupation, premium, property, prohibited transactions, windfall or excess profits, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, (b) any Liability for payment of amounts described in clause (a) whether as a result of transferee Liability, of being a member of an Affiliated, consolidated, combined or unitary group for any period, or otherwise through operation of law and (c) any Liability for the payment of amounts described in clause (a) or (b) as a result of any tax sharing, tax indemnity or tax allocation agreement or any other express or implied agreement to indemnify any other Person for Taxes; and the term "Tax" means any one of the foregoing Taxes.

"Tax Returns" means all returns, declarations, reports, statements, information statements, forms or other documents filed or required to be filed with respect to any Tax.

"Third Party" means a Person other than the Purchaser, the Seller or their Affiliates.

ARTICLE II

PURCHASE AND SALE OF ASSETS

2.01 Purchased Assets. Upon the terms and subject to the conditions of this Agreement, at the Closing, the Purchaser agrees to purchase, acquire and take assignment and delivery from the Seller, and the Seller agrees to sell, transfer, assign, convey and deliver to the Purchaser, free and clear of all Security Interests, all of the Seller's right, title and interest in and to the Purchased Assets. Title to all of the Purchased Assets which are capable of being transferred by physical delivery shall be transferred from the Seller to the Purchaser by means of physical delivery thereof at the Closing. Notwithstanding the foregoing, the Purchased Assets shall not include any Excluded Assets, as defined in Section 2.04 below.

2.02 Assigned Contracts. Subject to the terms and conditions of this Agreement and the need to obtain any required consent from any Third Party, as of the Closing Date, the Seller shall transfer to the Purchaser all of its right, title and interest in and to, and the Purchaser shall assume all of the obligations of the Seller, under the agreements, contracts, instruments, Security Interests, guaranties, and other similar arrangements to which the Seller is a party and which are listed on Exhibit J (collectively the "Assigned Contracts"). To the extent reasonably practicable, all such Assigned Contracts

shall be transferred from the Seller to the Purchaser by means of novation with the other parties to those Assigned Contracts.

Notwithstanding anything in this Agreement to the contrary, except as expressly provided in Section 2.03 below, this Agreement shall not constitute an agreement to assign any Contract or any claim or right or any benefit or obligation under any Contract or resulting from any Contract if an assignment of such Contract, without the consent of a Third Party, would constitute a breach or violation of such Contract and if consent to such assignment is not obtained on or prior to the Closing Date.

2.03 Procedures for Assets not Transferable. If the consent of any Third Party to novate any Assigned Contracts to the Purchaser has not been obtained prior to the Closing Date and the Closing occurs, the Seller shall use its reasonable best efforts to obtain such consent as soon as possible after the Closing Date; provided that the Purchaser shall cooperate with the Seller in that endeavor. The Seller shall use its reasonable best efforts to provide the Purchaser the benefit of any Assigned Contract (to the extent legally permissible) that is not novated prior to the Closing and will cooperate in any reasonable and lawful arrangement designed to provide such benefits to the Purchaser. The Seller will keep the Purchaser informed of its efforts in obtaining any consent.

2.04 Excluded Assets. The Purchaser and the Seller expressly understand and agree that the following assets of the Seller shall be excluded from the Purchased Assets (the "Excluded Assets"):

(a) Certain Assets. Any assets, tangible or intangible, real or personal, listed on Exhibit K;

(b) Land. The Land, except for the Lease;

(c) Certain Contracts. All Contracts that are not Assigned Contracts;

(d) Accounts Receivable. All Accounts Receivable of the Seller;

(e) Certain Inventory. All Inventory of the Seller not usable at the Facility in the Ordinary Course of Business within the 90 day period immediately following the Closing Date;

(f) Corporate Records. All (i) corporate seals, minute books, charter and organizational documents, corporate stock ledgers, and Tax Returns and supporting materials, (ii) such other books and records relating to the organization, existence or capitalization of the Seller and (iii) other records and materials relating to the Seller or any of its Affiliates generally

and not involving or relating to the production of the Products at the Facility or the acquisition of the Purchased Assets by the Seller, provided that the Seller shall also be permitted to maintain and keep copies of any records or materials relating to the operation of the Facility which are reasonably necessary or desirable to document, support or further the Seller's accounting, legal or Tax claims and positions;

(g) Cash. All cash on hand or in banks, marketable and non-marketable securities and other investments, commercial paper, certificates of deposit and other bank deposits, treasury bills and other cash equivalents and all rights in any funds of any nature;

(h) Bank Accounts. All rights of the Seller in respect of any bank and security accounts, safe deposit boxes and vaults;

(i) Insurance. All insurance policies of the Seller in effect as of the date of this Agreement and all rights of every nature and description under, relating to, or arising out of such policies;

(j) Intellectual Property. All Intellectual Property (other than the license of Intellectual Property under the Master Supply Agreement);

(k) Names. Any and all interest in or right to use the names "Quantum Corporation", "Quantum Peripherals" or any derivation of the names or text treatment in branding or comarketing (the "Retained Marks");

(l) Tax Refunds. Any claim, right, or interest in or to any refund for foreign, federal, state or local Taxes of any nature whatsoever for periods ending on or prior to the Closing Date and any interest (or similar amount) thereon; and

(m) Other Assets. Any assets, tangible or intangible, real or personal, owned by the Seller that are not located at the Facility or owned by vendors of the Seller that are located at the Facility.

2.05 Assumption of Liabilities. Upon the terms and subject to the conditions of this Agreement, effective at the time of Closing, the Purchaser shall assume, and agree to pay, perform, fulfill and discharge, the following Liabilities and obligations of the Seller (collectively, the "Assumed Liabilities"):

(a) Contract Obligations. All Liabilities and obligations of the Seller under the Assigned Contracts, subject to Section 2.03 above;

(b) Taxes. All Liabilities and obligations for Taxes, assessments, and other governmental charges in respect of the Purchased Assets that are attributable to the Post-Closing Tax Period, including the allocable portion of any taxable period that begins prior to and ends after the Closing Date (but excluding any income, capital gains or other similar Tax applicable to the income and gains of the Seller for the Pre-Closing Tax Period or arising from the transactions contemplated by this Agreement); and

(c) Other Liabilities. All Liabilities and obligations relating to or arising out of the ownership or use of the Purchased Assets after the Closing Date.

2.06 Excluded Liabilities. Notwithstanding any other provision of this Agreement, the Seller shall retain and remain solely liable for and obligated to discharge and indemnify and hold the Purchaser harmless for, the following Liabilities and other obligations (collectively, the "Excluded Liabilities"):

(a) Excluded Assets. All Liabilities and obligations of the Seller or any predecessor or Affiliate of the Seller to the extent that such Liabilities or obligations relate to any of the Excluded Assets;

(b) Taxes. All Liabilities and obligations for Taxes, assessments, and other governmental charges that are attributable to the Pre-Closing Tax Period or in respect of the allocable portion of any taxable period that includes but ends after the Closing Date (including any income, capital gains or similar Tax applicable to the income and gains of the Seller for the Pre-Closing Tax Period or arising from the transactions contemplated by this Agreement);

(c) Employee Obligations. Any Liability that may arise or has arisen from the employment of employees with, or the termination of their employment by, the Seller on or prior to the Closing Date, including, without limitation, Liabilities arising from termination notices and severance pay requirements under Applicable Law, employee contracts with the Seller and the Seller's termination policy; and

(d) Other Liabilities. All Liabilities and obligations, express or implied, relating to or arising out of the ownership or operation of the Facility, or the ownership or use of the Purchased Assets prior to the Closing Date.

2.07 Preliminary Purchase Price. At the Closing, the Purchaser shall pay to the Seller by wire transfer of immediately available funds to the account described in Exhibit L, the Estimated Closing Date Net Asset Value, as calculated in accordance with Sections 2.08 below (the "Preliminary Purchase Price"), for the Purchased Assets and the Assumed Liabilities. The Preliminary Purchase Price shall be paid in Malaysian currency.

2.08 Net Asset Value Calculation and Purchase Price Adjustment.

(a) Estimate of Value of Purchased Assets. At least five Business Days prior to the Closing, the Seller shall, in accordance with the Accounting Rules and Closing Balance Sheet Procedures and consistent with the preparation of the Financial Statements, prepare and deliver to the Purchaser a good faith written estimate of the book value of the Purchased Assets (including Inventory), together with reasonably detailed supporting documentation (the "Estimated Closing Date Net Asset Value Statement"). The Estimated Closing Date Net Asset Value Statement shall include a total indicating the total estimated value of the Purchased Assets (the "Estimated Closing Date Net Asset Value"),

(b) Closing Date Purchased Assets Statement. Within 60 days after the Closing Date, the Purchaser shall, in accordance with the Accounting Rules and Closing Balance

Sheet Procedures and consistent with the preparation of the Financial Statements, prepare and deliver to the Seller a calculation of the book value of the Purchased Assets as of the Closing Date (including Inventory and determined on a pro forma basis as though the Purchaser and the Seller had not consummated

the transactions contemplated by this Agreement), together with reasonably detailed supporting documentation (the "Draft Closing Date Purchased Assets Statement"). The Seller shall deliver a certificate setting forth its acceptance of, or objections to, the Draft Closing Date Purchased Assets Statement within 30 days of receipt of such Draft Closing Date Purchased Assets Statement. In the event that the Seller objects to the Draft Closing Date Purchased Assets Statement, the Purchaser and the Seller shall attempt in good faith to promptly resolve any such objections, and in the event that the Purchaser and the Seller are unable to resolve such objections within 30 days after the Seller's receipt of the Draft Closing Date Purchased Assets Statement, such dispute shall be governed by Section 2.08(c) below. The Draft Closing Date Purchased Assets Statement, upon its acceptance by the Seller or as determined after any disputes have been resolved in accordance with Section 2.08(c) below, shall be referred to as the "Closing Date Purchased Assets Statement," and such statement shall include a total indicating the total net value of the Purchased Assets (the "Closing Date Net Asset Value").

(c) Resolutions to Objections. If the Purchaser and the Seller are unable to resolve any objections to any statement prepared pursuant to this Section 2.08, the Purchaser and the Seller will refer the issue(s) to Deloitte & Touche LLP (unless another accounting firm is agreed to in writing) to resolve any such remaining objections. The determination of any accounting firm so selected will be set forth in writing and will be conclusive and binding upon the Purchaser and the Seller.

(i) In the event the Purchaser or the Seller submit any unresolved objections to an accounting firm for resolution as provided in this Section 2.08(c)(i), the Purchaser and the Seller will share responsibility for the fees and expenses of the accounting firm as follows:

(A) if the accounting firm resolves all of the remaining objections in favor of the Purchaser, the Seller will be responsible for all of the fees and expenses of the accounting firm;

(B) if the accounting firm resolves all of the remaining objections in favor of the Seller, the Purchaser will be responsible for all of the fees and expenses of the accounting firm; and

(C) if the accounting firm resolves some of the remaining objections in favor of the Purchaser and the rest of the remaining objections in favor of the Seller, the Seller will be responsible for the fees and expenses of the accounting firm associated with any objections resolved in favor of the

Purchaser and the Purchaser will be responsible for the fees and expenses of the accounting firm associated with any objection resolved in favor of the Seller. The allocation of expenses among the Purchaser and the Seller related to this Section 2.08(c)(i)(C) shall be determined by the accounting firm, in its sole discretion.

(d) Adjustment to Preliminary Purchase Price. The Preliminary Purchase Price will be adjusted as follows:

(i) If the Closing Date Net Asset Value exceeds the Estimated Closing Date Net Asset Value, the Purchaser will pay to the Seller an amount equal to such excess by wire transfer or delivery of other immediately available funds within three Business Days after the date on which the Closing Date Net Asset Value finally is determined pursuant to this Section 2.08.

(ii) If the Closing Date Net Asset Value is less than the Estimated Closing Date Net Asset Value, the Seller will pay to the Purchaser an amount equal to such deficiency by wire transfer or delivery of other immediately available funds within three Business Days after the date on which the Closing Date Net Asset Value is determined pursuant to this Section 2.08.

The Preliminary Purchase Price as so adjusted is referred to in this Agreement as the "Purchase Price."

2.09 Closing. The closing of the purchase and sale of the Purchased Assets (the "Closing") shall take place at a location to be mutually agreed upon

by the Purchaser and the Seller, as soon as possible, but in no event later than seven days after satisfaction of the conditions set forth in Article VIII below, or at such other time or place as the parties may agree. The Closing shall be effective on either a Friday (in which case the effective time shall be deemed to be 11:59 p.m., Malaysian time) or on a Monday (in which case the effective time shall be 12:01 a.m., Malaysian time). At the Closing:

(a) Subject to Section 2.03 above, the Seller shall deliver to the Purchaser any endorsements, consents, assignments, instruments of conveyance and transfer documents as the Purchaser may reasonably request to vest in the Purchaser all right, title and interest in, to and under the Purchased Assets. Simultaneously with the consummation of the transactions contemplated by this Agreement, the Seller, through its officers, agents and employees, will put the Purchaser into full possession and enjoyment of all tangible Purchased Assets;

(b) The Seller and the Purchaser shall execute and deliver those Acquisition Documents that have not been executed and delivered prior to the Closing, including the Lease; and

(c) The Purchaser shall pay the Preliminary Purchase Price to the Seller through a wire transfer of immediately available funds to an account described in Exhibit L.

(d) The Purchaser shall deliver a certified copy of resolutions of its board of directors approving this Agreement and the other Acquisition Documents.

(e) The Seller shall deliver a certified copy of resolutions of its shareholders approving this Agreement and the other Acquisition Documents.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE SELLER

As an inducement to the Purchaser to enter into this Agreement and to consummate the transactions contemplated in this Agreement, the Seller represents and warrants to the Purchaser that the statements contained in this Article III are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though then made and as though the Closing Date were substituted for the date of this Agreement throughout this Article III), except as set forth in the Seller's disclosure schedule accompanying this Agreement (the "Seller Disclosure Schedule"). The Seller Disclosure Schedule shall be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this Article III:

3.01 Existence. The Seller is a corporation duly organized, validly existing under the laws of Malaysia and has all corporate power and authority required to carry on its business as now conducted. The Seller is qualified to do business as a foreign corporation, and is in good standing, under the laws of all jurisdictions where the nature of its business requires such qualification. The Seller has full power and authority and all Governmental Approvals and Permits necessary to carry on the business in which it is engaged and to own and use the properties owned and used by it.

3.02 Authorization and Effect of Agreement. The execution, delivery and performance by the Seller of this Agreement and the other Acquisition Documents to which it is a party, and the consummation of the transactions contemplated by this Agreement and the other Acquisition Documents, are within the Seller's powers and have been duly authorized by all necessary corporate action on its part. This Agreement and the other Acquisition Documents to which it is a party has been and, when executed at the Closing, the other Acquisition Documents will have been, duly and validly executed by the Seller and, assuming the due execution and delivery of this Agreement and the other Acquisition Documents by the Purchaser, as applicable, will constitute legal, valid and binding obligations of the Seller, enforceable against the Seller in accordance with their respective terms, subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity.

3.03 Governmental or Other Authorization. Except as set forth in Section 3.03 of the Seller Disclosure Schedule, the execution, delivery and performance by the Seller of this Agreement and the other Acquisition Documents to which it is a party, and the consummation by

it of the transactions contemplated by this Agreement and the other Acquisition Documents, require no Governmental Approval or any consent, waiver or approval of any other Person to be obtained by the Seller.

3.04 Non-Contravention. The execution, delivery and performance of this Agreement and the other Acquisition Documents by the Seller, and the consummation of the transactions contemplated by this Agreement and the other Acquisition Documents, do not and will not (a) contravene or conflict with the Seller's Memorandum of Association or other organizational documents, (b) conflict with, or result in any violation of, or constitute a default (with or without notice, lapse of time or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under any Contract or permit to which the Seller is a party or by which any of its properties are bound, (c) violate any judgment, decree or order of any Governmental Authority to which the Seller is subject or by which the Seller is bound or (d) violate or conflict with any requirements of Applicable Law.

3.05 Litigation. Except as set forth in Section 3.05 of the Seller Disclosure Schedule, there are no actions, suits, claims, charges, hearings, arbitrations, audits, proceedings (public or private) or investigations (collectively, "Proceedings") that have been brought or initiated by or against any Governmental Authority or any other Person, or are pending or, to the Knowledge of the Seller, threatened by or against the Seller relating to any of the Purchased Assets or to which any of the Purchased Assets may be subject. To the Knowledge of the Seller, there are no actions, suits, claims or proceedings (public or private) pending or overtly threatened, involving allegations that the Seller's designs and/or specifications of any of the Products infringe upon any intellectual property rights of any other Person, which, if determined adversely to the Seller, could result in an injunction or other court order prohibiting or restricting the manufacture, assembly and sale of any of those Products in a manner that might reasonably be expected to substantially reduce the volume of Products to be manufactured and assembled under the Master Supply Agreement.

3.06 Contracts. Each of the Assigned Contracts is a legal, valid, and binding obligation of the Seller and, to the Knowledge of the Seller, of each other party to such Assigned Contract, subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity. Neither the Seller nor, to the Knowledge of the Seller, any other party to any Assigned Contract is in breach or default (whether with or without the giving of notice, lapse of time or both) under any Assigned Contract. Except as set forth in Section 3.06 of the Seller Disclosure Schedule, the Assigned Contracts constitute all of the contracts necessary to produce the Products as currently being produced by the Seller. None of the Assigned Contracts will be terminated by the Seller at or prior to the Closing without prior written notification to the Purchaser, and none of the Assigned Contracts shall be amended or terminated by the Seller without the consent of the Purchaser.

3.07 Title. The Seller has good and marketable title to or a valid leasehold interest in, all of the Purchased Assets, free and clear of any Security Interests or restriction on transfer.

3.08 Assets. Except as set forth in Section 3.08 of the Seller Disclosure Schedule and for items of Intellectual Property, the Seller owns or leases all machinery, equipment, rights, licenses and other tangible assets necessary for the production of the Products. Subject to Section 2.04 above, all such assets are included within the Purchased Assets. All of the machinery, equipment and other tangible assets have been maintained in accordance with the maintenance schedules and requirements established by the suppliers of such machinery, equipment and other tangible assets, and are usable in the Ordinary Course of Business in the production of the Products. The Seller has furnished the Purchaser with access to all of the Seller's maintenance records for all such machinery, equipment and other tangible assets, and all such maintenance records are correct, complete and up to date.

3.09 Inventory. All Acquired Inventory consists only of raw materials and work in process and has been maintained in the Ordinary Course of Business; is of good and merchandisable quality; and consists substantially of a quality, quantity, and condition usable, leasable, or saleable in the Ordinary Course of Business.

3.10 Permits. The Permits set forth in Section 3.10 of the Seller Disclosure Schedule constitute all of the approvals, authorizations, licenses, and permits issued by any Governmental Authority that are reasonably necessary for the production of the Products at the Facility as currently conducted by the Seller. The Seller is in compliance in all material respects with the terms of the Permits.

3.11 No Third-Party Options. There are no existing agreements with, options or rights of, or commitments to, any Person to acquire any of the Purchased Assets or any interest in the Purchased Assets, except for those Contracts entered into in the Ordinary Course of Business consistent with past practice.

3.12 Books and Records. The books and records of the Seller maintained in

respect of the Facility accurately and fairly reflect, in reasonable detail, the transactions and the assets and liabilities of the Seller in respect of the Facility.

3.13 Compliance with Applicable Laws. The Seller and its Affiliates have complied with all Applicable Laws with respect to the Purchased Assets and the transactions contemplated by this Agreement and the other Acquisition Documents, and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, warning or notice has been filed or commenced against any of them alleging any failure so to comply.

3.14 Advisory Fees. There is no investment banker, broker or finder that has been retained by or is authorized to act on behalf of the Seller, who might be entitled to any fee, commission or reimbursement of expenses from the Seller, or any Affiliate or Associate of the Seller, upon consummation of the transactions contemplated by this Agreement.

3.15 Certain Business Relationships with the Seller. Except as set forth in Section 3.15 of the Seller Disclosure Schedule and for items of Intellectual Property, none of the Seller's officers, directors or employees has been involved in any business arrangement or relationship with the Seller within the past six months (excluding their respective employment agreements, if

any) and none of the Seller's stockholders and their Affiliates, officers, directors or employees owns any asset, tangible or intangible, that is used in the business of the Seller.

3.16 Certain Business Practices. None of the Seller, any of its subsidiaries or any directors, officers, agents or employees of the Seller or any of its subsidiaries has, in their capacity as such or otherwise on behalf of the Seller: (a) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to political activity, (b) made any unlawful payment to any government officials or employees or to any political parties or campaigns or violated any provision of the United States Foreign Corrupt Practices Act of 1977, as amended, or (c) made any other unlawful payment under Malaysian, United States, or other Applicable Law.

3.17 Labor and Employment Matters.

(a) The Seller has properly entered into an employment agreement with each of its employees, and there is no collective bargaining agreement, whether written or oral, that is binding on the Seller or any of its subsidiaries, and the Seller has not accorded recognition to any trade union of employees, voluntary or by order of any court and neither has it not been apprised that any petition or claim has been filed or proceeding instituted by an employee or group or trade union of employees of the Seller, or any of its subsidiaries, with any Malaysian Governmental Authority seeking recognition of a bargaining representative.

(b) (i) There have not been any unjust dismissal or unfair labor practice representations or complaints, material labor difficulties, work stoppages, labor strikes or disputes and none are pending or, to the Knowledge of the Seller, threatened against the Seller or any of its subsidiaries; and (ii) neither the Seller nor any of its subsidiaries has received any notification of representations or complaints, demand letters, suits or drafts of suits, administrative or other claims made by any of their respective employees which are or could be material.

(c) Section 3.17(c) of the Seller Disclosure Schedule contains a complete and accurate list of the name of each officer, employee and independent contractor of the Seller or any of the Seller's subsidiaries, together with such Person's position or function, annual base salary or wages and any incentives or bonus arrangement with respect to such Person.

(d) Section 3.17(d) of the Seller Disclosure Schedule contains a list and description of all policies and guidelines of the Seller and its subsidiaries concerning employment practices, working conditions, hours and other employment matters. Each of the Seller and its subsidiaries (and to the Knowledge of the Seller, each of the Seller's material subcontractors) is in compliance with all such policies and guidelines.

(e) Except as set forth in Section 3.17(e) of the Seller Disclosure Schedule, the Seller and its predecessors and Affiliates have properly paid or withheld, deducted and remitted to the relevant Governmental Authorities or funds all income Taxes, unemployment insurance contribution, employees' provident fund contribution, social security contribution and

other Taxes and contributions, which it is required to withhold, deduct and remit under Applicable Law or Contract in connection with the ownership and

operation of the Facility.

(f) The Seller and its respective predecessors and Affiliates have satisfied all employee benefits and welfare obligations to which it is subject, including pension, unemployment compensation or insurance, health care, and housing contributions, allowances and plans, as required by Applicable Law, with respect to its current and former employees in connection with the operation of the Facility. Except as set forth in Section 3.17(f) of the Seller Disclosure Schedule, there are no claims or legal actions, pending or, to the Knowledge of the Seller, threatened, against the Seller or any of its Affiliates by any of its current or former employees, officers or directors or any Governmental Authority for failure to comply with such employee benefits and welfare obligations in connection with the operation of the Facility. There are no facts or circumstances known to the Seller which are reasonably expected to give rise to such claims or actions against the Seller or any of its Affiliates in connection with the operation of the Facility.

3.18 Product Liability. Except as set forth in Section 3.18 of the Seller Disclosure Schedule, the Seller has no Liability (and there is no basis for any present or, to the Knowledge of the Seller future, action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against it giving rise to any Liability) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product manufactured, sold, leased, or delivered by the Seller, and there have been no product liability claims against the Seller in the past three years.

3.19 Product Warranty. Each product manufactured, sold, leased, or delivered by the Seller has been in conformity with all applicable contractual commitments and all express and implied warranties. No product manufactured, sold, leased, or delivered by the Seller is subject to any guaranty, warranty, or other indemnity beyond the applicable standard terms and conditions of sale or lease set forth in Section 3.19 of the Seller Disclosure Schedule (containing applicable guaranty, warranty, and indemnity provisions).

3.20 Environment, Health, and Safety.

(a) Each of the Seller and its predecessors and Affiliates has complied with all Environmental, Health, and Safety Laws in connection with the ownership and operation of the Facility, and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against it alleging any failure so to comply. Without limiting the generality of the preceding sentence, each of the Seller and its predecessors and Affiliates has obtained and been in compliance with all of the terms and conditions of all permits, licenses, and other authorizations that are required under, and has complied with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules, and timetables that are contained in, all Environmental, Health, and Safety Laws to which the Facility is subject.

(b) The Seller has no Liability (and none of the Seller and its predecessors and Affiliates has handled or disposed of any substance, arranged for the disposal of any substance,

exposed any employee or other individual to any substance or condition, or owned or operated the Facility in any manner that could form the basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against the Seller giving rise to any Liability) for damage to the Facility or for any illness of or, personal injury to any employee or other individual arising out of activities at the Facility prior to the Closing Date, under any Environmental, Health, and Safety Law to which the Facility is subject.

(c) All properties and equipment used in production of the Products at the Facility have been free of asbestos and other Extremely Hazardous Substances.

3.21 Disclosure. No representation or warranty contained in this Agreement, or in any certificate or document furnished or to be furnished by the Seller to the Purchaser or its representatives in connection with this Agreement, contains or shall contain an untrue statement of a fact or omit to state any fact required to make the statements contained in this Agreement, or any certificate or document furnished or to be furnished by the Seller to the Purchaser or its representation in connection with this Agreement not misleading where necessary in order to provide a prospective purchaser of the Purchased Assets with full and complete accurate information as to the Purchased Assets. In the event that, at any time prior to the Closing Date, Howard Harris, Cory Schuck or Jim Kircher (the "Purchaser Representatives") discovers any information that has the effect of rendering any of the Seller's representations and warranties contained herein materially incomplete or inaccurate, the Purchaser shall provide written notice thereof to the Seller prior to the Closing Date. In the event any of the Purchaser Representatives fails to provide the Seller with such written notice, then upon the Closing, the Purchaser shall be deemed to have waived any claim

with respect to the Seller's breach of any representation or warranty as a result of such incomplete or inaccurate information.

3.22 Financial Statements. The Seller has delivered to the Purchaser true and complete copies of the following financial statements (collectively the "Financial Statements"): (i) audited balance sheets, statements of income and changes in stockholders' equity, as of and for the fiscal years ended March 31, 2000, March 31, 2001, and March 31, 2002 for the Seller; and (ii) unaudited balance sheet, statement of income, and changes in stockholders' equity as of and for the three months ended June 30, 2002 (the "Most Recent Fiscal Month End") for the Seller. The Financial Statements (including the notes thereto) have been prepared in accordance with GAAP, present fairly in all material respects the financial condition of the Seller as of such dates and the results of operations of the Seller for such periods (except that the financial statements for the Most Recent Fiscal Month End do not contain footnote information), are correct and complete, and are consistent with the books and records of the Seller (which books and records are correct and complete).

3.23 Events Subsequent to Most Recent Fiscal Month End. Since the Most Recent Fiscal Month End, except as set forth in Section 3.23 of the Seller Disclosure Schedule or as otherwise agreed to by the Purchaser under Section 5.02 below, there has not been any adverse change in the business, financial condition, operations, or results of operations of the Seller. Without limiting the generality of the foregoing, since that date:

(a) the Seller has not sold, leased, transferred, or assigned any of its assets, tangible or intangible, other than for a fair consideration in the Ordinary Course of Business;

(b) the Seller has not entered into any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) (other than inventory purchase and sale agreements) related to the Purchased Assets, either involving more than $100,000 or outside the Ordinary Course of Business;

(c) the Seller has not entered into an agreement for the purchase and sale of inventory involving more than $50,000 outside the Ordinary Course of Business;

(d) no party (including the Seller) has accelerated, terminated, modified, or cancelled any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) involving more than $100,000 to which the Seller is a party or by which it is bound;

(e) the Seller has not imposed any Security Interest upon the Purchased Assets;

(f) the Seller has not made any capital expenditure (or series of related capital expenditures) relating to the Purchased Assets either involving more than $100,000 or outside the Ordinary Course of Business;

(g) the Seller has not issued any note, bond, or other debt security or created, incurred, assumed, or guaranteed any indebtedness for borrowed money or capitalized lease obligation relating to the Purchased Assets;

(h) the Seller has not delayed or postponed the payment of accounts payable and other Liabilities related to the Assigned Contracts outside the Ordinary Course of Business;

(i) there has been no change made or authorized in the charter documents of the Seller;

(j) to the best of the Seller's Knowledge, no stockholder of Seller has sold or otherwise disposed of any of its equity interest in the Seller (except transfers to Affiliates of the Seller) or has granted any Person any options, warrants or other rights to purchase or obtain (including upon conversion, exchange, or exercise) any of its equity interest in the Seller;

(k) the Seller has not declared, set aside, or paid any unlawful dividend or made any unlawful distribution of profits (whether in cash or in kind);

(l) the Seller has not experienced any damage, destruction, or loss (whether or not covered by insurance) to the Purchased Assets (other than ordinary wear and tear);

(m) the Seller has not made any loan to, or entered into any other transaction with any Transferred Employee outside the Ordinary Course of Business;

(n) the Seller has not entered into any employment contract or, whether on a collective or individual basis, whether written or oral, providing annual compensation in excess of $15,000 per employee or providing severance benefits beyond those standard severance benefits provided to employees under Seller's normal policy in effect before the Most Recent Fiscal Month End, a true and complete copy of which has been provided to Purchaser, or modified the terms of any existing such contract or agreement;

(o) the Seller has not granted any increase in the base compensation of any of the Transferred Employee providing annual compensation in excess of $15,000 or providing any new or additional severance benefits;

(p) the Seller has not adopted, amended, modified, or terminated any bonus, profit-sharing, incentive, social welfare, housing, severance, or other plan, contract, or commitment for the benefit of any of its directors, officers, and employees (or taken any such action with respect to any other employee benefit plan);

(q) the Seller has not made any other change in employment terms for any of its directors, officers, and employees outside the Ordinary Course of Business, except for the termination of the Transferred Employees as contemplated by this Agreement; and

(r) the Seller has not committed to any of the foregoing.

3.24 Undisclosed Liabilities. Except as specifically set forth by name or title on the face of balance sheets included in the Financial Statements or as specifically identified in the footnotes thereto, the Seller has no Liability relating to the Purchased Assets (and, to the Knowledge of the Seller, there is no basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any such Liability).

3.25 Tax Matters. Except as set forth in Schedule 3.25 of the Seller Disclosure Schedule,

(a) (i) the Seller has filed all Tax Returns that it was required to file with respect to the Purchased Assets; (ii) all such Tax Returns were correct and complete in all respects; (iii) all Taxes owed by the Seller with respect to the Purchased Assets (whether or not shown on any Tax Return) have been paid; (iv) the Seller currently is not the beneficiary of any extension of time within which to file any Tax Return; (v) no claim has ever been made by an authority in a jurisdiction where the Seller does not file Tax Returns that it is or may be subject to taxation by that jurisdiction; and (vi) there are no Security Interests on any of the assets of the Seller that arose in connection with any failure (or alleged failure) to pay any Tax.

(b) The Seller has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other Third Party.

(c) The Seller does not have any liability for the Taxes of any other Person under any provision of the Tax law, as a transferee or successor, by contract, or otherwise.

3.26 Powers of Attorney. There are no outstanding powers of attorney executed on behalf of the Seller that relate to the Purchased Assets.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

As an inducement to the Seller to enter into this Agreement and to consummate the transactions contemplated in this Agreement, the Purchaser represents and warrants to the Seller that the statements contained in this Article IV are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though then made and as though the Closing Date were substituted for the date of this Agreement throughout this Article IV), except as set forth in the Purchaser's disclosure schedule accompanying this Agreement (the "Purchaser Disclosure Schedule"). The Purchaser Disclosure Schedule shall be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this Article IV.

4.01 Existence. The Purchaser is a corporation duly organized, validly existing under the laws of Malaysia and has all corporate power and authority required to carry on its business as now conducted. The Purchaser is qualified to do business as a foreign corporation, and is in good standing, under the laws of all jurisdictions where the nature of its business requires such qualification. The Purchaser has full power and authority, and all licenses, permits and authorizations necessary to carry on the business in which it is engaged and to own and use the properties owned and used by it.

4.02 Authorization and Effect of Agreement. The execution, delivery and performance by the Purchaser of this Agreement and the other Acquisition Documents to which it is a party, and the consummation of the transactions contemplated by this Agreement and the other Acquisition Documents, are within the Purchaser's powers and have been duly authorized by all necessary corporate action on its part. This Agreement and the other Acquisition Documents to which the Purchaser is a party have been and, when executed at the Closing, the other Acquisition Documents to which it is a party will have been, duly and validly executed by the Purchaser, and, assuming the due execution and delivery of this Agreement and the other Acquisition Documents by the Seller, will constitute legal, valid and binding obligations of the Purchaser, enforceable against the Purchaser in accordance with their respective terms, subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity.

4.03 Governmental or Other Authorization. Except as set forth in Section 4.03 of the Purchaser Disclosure Schedule, the execution, delivery and performance by the Purchaser of this Agreement and the other Acquisition Documents to which it is a party, and the consummation by it, of the transactions contemplated by this Agreement and the other Acquisition Documents, require no Governmental Approval or any consent, waiver or approval of any other Person to be obtained by the Purchaser.

4.04 Non-Contravention. The execution, delivery and performance of this Agreement and the other Acquisition Documents by the Purchaser, where applicable, and the consummation

of the transactions contemplated by this Agreement, do not and will not (a) contravene or conflict with the memorandum of association or other organizational documents of the Purchaser, (b) conflict with, or result in any violation of, or constitute a default (with or without notice, lapse of time or both) under, or give rise to a rights of termination, cancellation or acceleration of any obligation or to loss of a benefit under any contract or permit to which the Purchaser is a party or by which any of its properties are bound, (c) violate any judgment, decree or order of any Governmental Authority to which the Purchaser is subject or (d) violate or conflict with any requirements of Applicable Law.

4.05 Available Funds. The Purchaser has, and at the Closing will have, cash available or existing borrowing facilities that may be drawn upon and are sufficient to enable the Purchaser to consummate the purchase of the Purchased Assets.

4.06 Advisory Fees. There is no investment banker, broker or finder that has been retained by or is authorized to act on behalf of the Purchaser, who might be entitled to any fee, commission or reimbursement of expenses from the Purchaser or its Affiliates or Associates, upon consummation of the transactions contemplated by this Agreement.

4.07 Receipt of Information. As of the Closing Date, the Purchaser has received and/or has had the opportunity to review all documents, materials and other information requested by the Purchaser pertaining to the Purchased Assets, and the Seller has responded to all of the Purchaser's inquiries pertaining to the Purchased Assets, to the Purchaser's satisfaction.

ARTICLE V

COVENANTS OF THE SELLER

5.01 Access to Information. (a) The Seller agrees to provide to the Purchaser and its authorized agents (including its attorneys and accountants and auditors) reasonable access to the offices, properties, books and records of the Seller, upon reasonable prior notice. The Seller shall, and shall cause its employees, agents and representatives to, reasonably cooperate with such examination and shall make full and complete disclosure to the Purchaser and their representatives of all relevant facts relating to the Purchased Assets. Each of the parties to this Agreement will hold, and will cause its consultants and advisers to hold, in confidence all documents and information furnished to it by or on behalf of another party to this Agreement in connection with the transactions contemplated by this Agreement pursuant to the terms of that certain Non-Disclosure Agreement #6376, dated May 16, 2002, entered into between JC and QC (the "NDA"). The obligation under this Section 5.01(a) shall terminate five years after the Closing Date.

(b) If the Seller determines from time-to-time that the Seller intends to dispose of or destroy any of the Seller's original books, records or ledgers not transferred to the Purchaser, the Seller will give reasonable advance notice to the Purchaser of such fact and, if the Purchaser requests, promptly deliver such original books, records or ledgers, at the Purchaser's cost, to the Purchaser.

5.02 Operation of the Facility. Except as set forth on Exhibit M, as contemplated in this Agreement, or as otherwise consented to by the Purchaser in writing, during the period from the date of this Agreement and continuing until the Closing Date, the Seller will, in respect of the operation of the Facility:

(a) operate the Facility in the Ordinary Course of Business;

(b) maintain the Purchased Assets in at least as good condition as they were being maintained on the date of this Agreement, subject to normal wear and tear;

(c) not sell, assign, or transfer any of the Purchased Assets, except in the Ordinary Course of Business, and not permit any of the Purchased Assets to be subjected to any Security Interest or sell, assign or transfer or lease (other than the Lease), or let or create any lien, charge or other encumbrance on the Land;

(d) not fail to pay or discharge when due any Liability of which the failure to pay or discharge would cause any material damage or loss to the Purchased Assets;

(e) not amend or terminate any Assigned Contract or other agreement, other than in the Ordinary Course of Business;

(f) maintain its books and records in the usual, regular and ordinary manner or a basis consistent with prior years;

(g) not grant to any employee of the Seller any increase in compensation or in severance or termination pay, grant any severance or termination pay, or enter into any employment agreement with any such employee, except as may be required under Applicable Law, the Seller's termination policy or any employment or termination agreement in effect on the date of this Agreement or in the Ordinary Course of Business;

(h) not acquire or agree to acquire any asset that would constitute Purchased Assets, except in the Ordinary Course of Business;

(i) maintain in full force and effect all currently issued insurance policies, except for renewals and replacements in the Ordinary Course of Business;

(j) not take or omit to take any action as a result of which any representation or warranty of the Seller in Article III above would be rendered untrue or incorrect if such representation or warranty were made immediately following the taking or failure to take such action;

(k) observe all express and implied conditions of land use applicable to the Land, and pay promptly all quit rent, rates and outgoings on the Land; and

(l) observe all Applicable Laws in relation to the operation and maintenance of the Facility and not alter the structure or any part of the Facility.

Notwithstanding the foregoing, the Seller shall be permitted to effect the transfer of any cash, cash equivalents, Tax refunds and Accounts Receivable from QC to the Seller or an Affiliate at any time prior to the Closing except to the extent any cash or cash equivalents represent Prepaid Items.

5.03 Exclusivity. Prior to the Closing, the Seller will not (a) solicit, initiate, or encourage the submission of any proposal or offer from any Person relating to the acquisition of any capital stock or other voting securities, or any substantial portion of the assets of, the Seller (including any acquisition structured as a merger, consolidation, or share exchange) or (b) participate in any discussions or negotiations regarding, furnishing any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any Person to do or seek any of the foregoing. The Seller will notify the Purchaser immediately if any Person makes any proposal, offer, inquiry, or contact with respect to any of the foregoing and provide copies of any written materials received with respect thereto.

5.04 Seller Nonsolicitation. For a period of one year from and after the Closing Date, the Seller shall not, directly or indirectly, on its own behalf or on behalf of any other Person, (i) hire any Transferred Employee; or (ii) solicit or induce any Transferred Employee to cease rendering services to the Purchaser; provided, however, that the provisions of this Section 5.04 shall not apply to any Transferred Employee whose relationship with the Purchaser has been terminated for any reason whatsoever. The Seller shall not solicit or

induce any supplier or prospective supplier of services or products to the Purchaser to cease to supply such services or products to the Purchaser, or to alter the terms pursuant to which such services or products were supplied to the Seller immediately prior to the Closing Date, except (i) in accordance with the provisions of the Master Supply Agreement, or (ii) as otherwise authorized in writing by the Purchaser.

ARTICLE VI

COVENANTS OF THE PURCHASER AND THE SELLER

6.01 Notification. The Seller shall provide prompt written notice to the Purchaser, and the Purchaser shall provide prompt written notice to the Seller, of any action, suit, or Proceeding pending or, to the Knowledge of the Seller or the Purchaser, threatened against the Seller or the Purchaser, as the case may be, that challenges the transactions contemplated by this Agreement. The Seller shall provide prompt written notice to the Purchaser of any change in any of the information contained in its representations and warranties made in Article III above or any Exhibit or Schedule attached to this Agreement and shall promptly furnish any information that the Purchaser may reasonably request in relation to any such change. No disclosure by any Party pursuant to this Section 6.01, however, shall be deemed to amend or supplement the Seller Disclosure Schedule or the Purchaser Disclosure Schedule, as applicable, or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant; provided, however, that nothing in this Section 6.01 shall be deemed to restrict the Seller from amending the Seller Disclosure Schedule, or the Purchaser from amending the Purchaser Disclosure Schedule, as the case may be, at any time prior to the Closing Date. Notwithstanding the foregoing, any

amendment to the Seller Disclosure Schedule or the Purchaser Disclosure Schedule shall not be deemed a waiver of any party's right of termination under Article VII below.

6.02 Commercially Reasonable Efforts and Certain Filings.

(a) As soon as practicable after the date of this Agreement, but in no event later than ten Business Days thereafter, the Purchaser shall make all filings with Governmental Authorities required to be filed by the Purchaser for the consummation of the transactions contemplated by this Agreement, including, but not limited to, any necessary filings with MIDA, the MITI and the Beyan Lepas Free Zone Authority and the Seller shall make all filings with Governmental Authorities required to be filed by the Seller for the consummation of the transactions contemplated by this Agreement, including, but not limited to, the filings with MIDA/MITI, the State Authority and the PDC. Each of the Purchaser and the Seller shall cooperate with the other party to this Agreement in the preparation of the filings to be made by the other party, and shall promptly furnish such information concerning itself and its Affiliates as the other party may reasonably request in order for such party to prepare and submit its required filings. The Purchaser agrees that its filing with the MITI shall address only the operation of the Facility as operated by the Seller as of the Closing Date and such other matters as are required for the filing under Applicable Law. The parties agree that the party preparing any filing with a Governmental Authority will provide the other party, or their representatives, a reasonable opportunity to review and comment on such filing prior to the submission of such filing with the applicable Governmental Authority. Each party shall as promptly as practicable notify the other party of (i) the receipt of any comments, notices or requests for additional information from a Governmental Authority relating the foregoing filings and (ii) the receipt of the requested Governmental Approvals.

(b) Subject to the terms and conditions of this Agreement, the Seller and the Purchaser will use their respective commercially reasonable efforts to maintain the accuracy of their representations and warranties under this Agreement and to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable to consummate the transactions contemplated by this Agreement, including, but not limited to, cooperating with respect to any necessary filings with the Governmental Authorities of Malaysia. Neither the Seller nor the Purchaser will take, agree to take or knowingly permit to be taken any action or do or knowingly permit to be done anything which would be contrary to or in breach of any of the terms or provisions of this Agreement.

6.03 Satisfaction of Conditions. Each of the Seller and the Purchaser will use its commercially reasonable efforts with due diligence and in good faith to satisfy promptly all conditions required to be satisfied by it in order to expedite the consummation of the transactions contemplated by this Agreement. If any Governmental Authority having jurisdiction over any party issues or otherwise promulgates any injunction, decree, or similar order prior to the Closing that prohibits the consummation of the transactions contemplated by this Agreement, each of the Purchaser and the Seller will use its commercially reasonable efforts to have such injunction dissolved or otherwise eliminated as promptly as practicable and, prior to or after the Closing, to pursue the

underlying litigation diligently and in good faith.

6.04 Confidentiality. The parties understand and agree that this Agreement is subject to the terms and conditions of the NDA. In the event that any party to this Agreement receives a request to disclose all or any part of any confidential information under the terms of a subpoena, order, civil investigative demand or similar process issued by a court of competent jurisdiction or by another Governmental Authority, such party agrees to: (a) immediately notify the party to whom such confidential information relates of the existence, terms and circumstances surrounding such request, (b) consult with such party to whom the information relates on the advisability of taking legally available steps to resist or narrow such request; and (c) if disclosure of such information is required, furnish only that portion of the confidential information that, in the opinion of counsel to the party who has received the request, such party is legally compelled to disclose and advise the party to whom such confidential information relates as far in advance of such disclosure as possible so that such party to whom the confidential information relates may seek an appropriate protective order or other reliable assurance that confidential treatment will be accorded such confidential information. In any event, the party who receives the request shall not oppose actions by the party to whom the confidential information relates to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded such confidential information.

6.05 Publicity. Neither the Seller nor the Purchaser shall issue any press release or otherwise make any public statements with respect to the transactions contemplated by this Agreement and the other Acquisition Documents, without the prior consent of the Purchaser (in the case of the Seller) or the Seller (in the case of the Purchaser), except in the judgment of counsel required by Applicable Law, or by the rules and regulations of, or pursuant to any agreement with, the New York Stock Exchange. If any party determines, with the advice of counsel, that it is required by Applicable Law to make this Agreement, the other Acquisition Documents or any terms of this Agreement or the other Acquisition Documents public, it shall, a reasonable time before making any public disclosure, consult with the other party regarding such disclosure, seek confidential treatment for such terms or portions of this Agreement or other Acquisition Documents as may be requested by the other party and disclose only such information as is legally compelled to be disclosed. The parties agree there shall be no public announcement of this Agreement or the other Acquisition Documents or the transactions contemplated hereby or thereby except as may be required by Applicable Law or as mutually agreed by the parties. The parties agree to announce this Agreement or the other Acquisition Documents or the transactions contemplated hereby or thereby to the customers and customer prospects, vendors and strategic partners of the Facility at such time and pursuant to a targeted communications plan as is mutually agreed upon by the parties. The parties shall agree on the content and timing of the announcement of this Agreement or the other Acquisition Documents or the transactions contemplated hereby or thereby to the employees of the Seller.

6.06 Employee Matters. As of the Closing Date or at any time thereafter, the Purchaser may offer employment, at the rates of compensation and on the terms and conditions determined by the Purchaser, to the Seller's employees whom the Purchaser determines are necessary for the Purchaser to operate the Purchased Assets after the Closing Date (the "Transferred Employees"). The Seller shall actively encourage each Transferred Employee to accept the Purchaser's offer of employment. Any offer of employment made by the Purchaser to such employees shall not affect the Seller's obligations, liabilities or responsibility for the

payment of any and all costs related to any severance of employment with the Seller of the Seller's employees whether they are or are not Transferred Employees. The Purchaser will be responsible for all obligations incurred in connection with the Transferred Employees arising as a result of their employment by the Purchaser and arising after the Closing. Nothing expressed or implied in this Agreement shall:

(a) obligate the Purchaser to continue to employ any of the Transferred Employees following the Closing Date or interfere with the right of the Purchaser to modify the position or terms of any Transferred Employee's employment following the Closing Date;

(b) obligate the Purchaser to provide to the Transferred Employees employee benefits on terms and conditions that are substantially similar to the terms and conditions of the Seller's employee benefit plans; or

(c) obligate the Purchaser to continue to provide any employee benefit for the Transferred Employees following the Closing Date or interfere with the right of the Purchaser to amend or terminate any employee benefit plan

in whole or in part following the Closing Date.

6.07 Compliance With Terms of Governmental Approvals and Consents. From and after the Closing Date, the Purchaser shall materially comply at its own expense with all conditions and requirements set forth in (a) any Governmental Approvals, to the extent necessary such that all such Governmental Approvals will remain in full force and effect assuming, if applicable, continued compliance of the terms of the Governmental Approvals by the Seller and (b) any consent, waiver or approval of any Person other than Governmental Authorities, to the extent necessary such that all such consents and approvals will remain effective and enforceable against the Persons giving such consents and approvals, assuming, if applicable, continued compliance with the terms of the Governmental Approvals by the Seller.

6.08 Use of Marks. Notwithstanding any other provision in this Agreement, but subject to any temporary interest in or right to use the Retained Marks during any transition period under the terms of the Transition Services Agreement, no interest in or right to use the Retained Marks is being transferred to the Purchaser pursuant to the transactions contemplated by this Agreement. The Purchaser agrees that it will not use the Retained Marks in branding or co-marketing.

6.09 Further Assurances. Each party to this Agreement agrees from time to time after the Closing at the request of the other party and without further consideration to execute and deliver such other documents, certificates, agreements and other writings and to take such other commercially reasonable actions as may be reasonably necessary or desirable in order to consummate or implement expeditiously the transactions contemplated by this Agreement and the other Acquisition Documents. Notwithstanding the foregoing, no party to this Agreement shall have any obligation to expend any funds or to incur any other obligation in connection with the consummation of the transactions contemplated by this Agreement other than normal out-of-pocket expenses (such as fees of counsel, accountants and auditors) reasonably necessary to consummate such transactions.

6.10 Tax Covenant.

(a) Cooperation. From and after the Closing Date, the parties to this Agreement agree to furnish or cause to be furnished to one another, upon request, as promptly as practicable, such information and assistance relating to the Purchased Assets as is reasonably necessary for the filing of all Tax Returns, and making of any election related to Taxes, the preparation for any audit by any taxing authority, and the prosecution or defense of any claim or Proceeding relating to any Tax Return. The parties to this Agreement shall cooperate with each other in the conduct of any audit or other Proceeding related to Taxes involving the Purchased Assets and each shall execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Section 6.10(a).

(b) Taxes, Tax Returns. The Seller shall prepare and file (or cause to be prepared and filed) on a timely basis (to the extent not filed on or before the date of this Agreement) all Tax Returns of the Seller for all taxable periods ending on or before or including the Closing Date, shall pay all Taxes shown to be due on such Tax Returns, and shall indemnify and hold the Purchaser harmless against, from and in respect of all Taxes of the Seller that are Excluded Liabilities. For purposes of determining whether any Tax is an Assumed Liability or an Excluded Liability, the portion of any Tax that is attributable to the Pre-Closing Tax Period shall be (i) in the case of a Tax that is not based on net income, gross income, premiums or gross receipts, the total amount of such Tax for the period in question multiplied by a fraction, the numerator of which is the number of days in the Pre-Closing Tax Period, and the denominator of which is the total number of days in such taxable period, and (ii) in the case of a Tax that is based on net income, gross income, premiums or gross receipts, the Tax that would be due with respect to the Pre-Closing Tax Period if such Pre-Closing Tax Period were a separate taxable period, except that exemptions, allowances, deductions or credits that are calculated on an annual basis (such as the deduction for depreciation or capital allowances) shall be apportioned on a per diem basis. For purposes of this Agreement, all Taxes arising from and as a result of this transaction (other than any income, capital gains or similar Tax applicable to the income and gains of the Seller arising from the transactions contemplated by this Agreement) shall be deemed to be Taxes attributable to the Post-Closing Tax Period and shall be the responsibility of the Purchaser (including any transfer, stamp, documentary, sales, use or other Taxes assessed upon or with respect to the transfer of the Purchased Assets to the Purchaser, and any recording or filing fees with respect to the Purchased Assets). The Purchaser shall prepare and file (or cause to be prepared and filed) on a timely basis all Tax Returns of the Purchaser for all taxable periods beginning after the Closing Date, shall pay all taxes shown to be due on such Tax Returns, and shall indemnify and hold the Seller harmless against, from and in respect of all Taxes that are Assumed Liabilities (i) for any taxable year or period commencing after the Closing Date, and (ii) for any

taxable period beginning before and ending after the Closing Date. Upon written notice from the Seller accompanied by adequate support documentation, the Purchaser shall reimburse the Seller for any Tax that is an Assumed Liability that is paid by the Seller that was due on a Tax Return of the Seller. Upon written notice from the Purchaser accompanied by adequate support documentation, the Seller shall reimburse the Purchaser for any Tax that is an Excluded Liability that is paid by the Purchaser that was due on a Tax Return of the Purchaser.

(c) Sales Tax Certificates. The Purchaser will provide the Seller with an appropriate resale certificate for sales tax purposes.

(d) Sales and Use Taxes. The sales and use Taxes arising out of the transfer of the Purchased Assets (the "Sales Tax") shall be determined at Closing based on the final Purchase Price allocation and shall be paid by the Purchaser. To the extent a taxing authority provides notice to the Seller of an audit of the Sales Tax, the Seller shall immediately notify the Purchaser and the Purchaser shall assume responsibility for such audit and shall pay when due any additional Sales Tax ultimately assessed with respect to the transactions contemplated by this Agreement. The Purchaser shall have complete authority to control, settle or defend any proposed adjustment to the Sales Tax, and the Seller shall cooperate fully with the Purchaser, in its defense or settlement of any proposed adjustment to the Sales Tax.

6.11 Purchase Orders. The Seller shall cancel any purchase orders for inventory issued by the Seller to any Third Party in the Ordinary Course of Business prior to the Closing Date for which such inventory will not be delivered until after the Closing Date and the Purchaser will issue new purchase orders in place thereof; provided, however, that the Seller shall not be required to cancel any purchase order if such cancellation would subject the Seller to any monetary penalties.

6.12 Purchaser Nonsolicitation. For a period of one year from and after the Closing Date, none of the Purchaser's Quantum Business Unit employees (the "QBU Employees") shall, directly or indirectly, on his own behalf or on behalf of any other Person, (i) hire any employee, agent or independent contractor of the Seller; or (ii) solicit or induce any employee, agent or independent contractor of the Seller to cease rendering services to the Seller; provided, however, that the provisions of this Section 6.12 shall not apply to any employee, agent or independent contractor whose relationship with the Seller has been terminated for any reason whatsoever. Notwithstanding the foregoing provisions of this Section 6.12: (a) the QBU Employees may interview or offer employment, including full time employment, to any Person (who may be an employee, agent or independent contractor retained by the Seller) who inquires or applies for a position without prior solicitation by the QBU Employees or in response to general employee recruiting practices such as the publication, broadcasting or posting of advertising or notices of job or employment opportunities and (b) the QBU Employees may hire agents and independent contractors to the extent such hiring will not materially impair the Seller's ability after Closing to use such agents and independent contractors in a manner similar to that used by the Seller prior to the Closing.

ARTICLE VII

TERMINATION

7.01 Termination. Notwithstanding any other provision of this Agreement to the contrary, this Agreement may be terminated at any time prior to the Closing (a) by the mutual written consent of the Purchaser and the Seller, or (b) if the party seeking to terminate is not then

in material breach or default of this Agreement, by notice of either the Purchaser or the Seller in writing to the other:

(a) if there shall have been entered a final, nonappealable order or injunction of any Governmental Authority restraining or prohibiting the consummation of the transactions contemplated by this Agreement or any material part of this Agreement;

(b) if the Closing shall not have occurred on or before December 15, 2002; provided, however, that if the failure to close is due to the failure to satisfy any of the conditions to Closing, as set forth in Article VIII below, the parties shall have used their commercially reasonable efforts to satisfy that condition to Closing; or

(c) if, the other party is in breach or default of any representation, warranty, covenant, or agreement contained in this Agreement and such breach or default shall not be cured or waived within thirty (30) days after written notice is delivered to the other party specifying, in reasonable

detail, such claimed breach or default and demanding its cure or satisfaction.

7.02 Effect of Termination. If this Agreement is validly terminated pursuant to Section 7.01 above, this Agreement (except for this Section 7.02, Sections 6.04 and 7.01 above, and Article IX below) shall become null and void and of no further force and effect and all obligations of the parties to this Agreement shall terminate and there shall be no liability or obligation of any party to this Agreement, except that nothing in this Section 7.02 shall relieve any party to this Agreement for its willful default under or willful breach of this Agreement prior to its valid termination.

ARTICLE VIII

CONDITIONS TO CLOSING

8.01 Conditions to Obligations of the Purchaser. The obligations of the Purchaser to consummate the Closing are subject to the satisfaction or waiver of each of the following conditions:

(a) Performance by the Seller. (i) The Seller shall have performed and satisfied in all respects each of its obligations required to be performed and satisfied by it on or prior to the Closing Date, (ii) each of the representations and warranties of the Seller contained in this Agreement or in any of the other Acquisition Documents and in any Schedules or Exhibits to this Agreement or the other Acquisition Documents shall have been true and correct in all material respects at and as of the Closing with the same force and effect as if made as of the Closing and (iii) the Purchaser shall have received a certificate signed by a duly authorized executive officer of the Seller to the foregoing effect and to the effect that the conditions specified within this Section 8.01(a) have been satisfied.

(b) Required Governmental Approvals. Subject to Section 7.01(b) above, all required Governmental Approvals shall have been obtained and in effect without the imposition of any conditions that are or would become applicable to any of the Purchased Assets or the

Purchaser (or any Affiliate or Associate of the Purchaser) after the Closing that would be materially burdensome on any such Purchased Assets or the Purchaser. Without limiting the generality of this Section 8.01(b), the parties hereby specifically acknowledge and agree that the denial and/or revocation of the Seller's Pioneer tax status by the Malaysian tax authorities shall be deemed to be a condition that is materially burdensome on the Purchaser within the meaning of this Section 8.01(b).

(c) Required Contractual Consents. All material consents, waivers or approvals (other than Governmental Approvals) shall have been obtained and in effect without the imposition of any conditions that are or would become applicable to any of the Purchased Assets or the Purchaser (or any Affiliate or Associate of the Purchaser) after the Closing that would be materially burdensome on any such Purchased Assets or the Purchaser.

(d) No Violation. The transactions contemplated by this Agreement and the other Acquisition Documents and the consummation of the Closing shall not violate any Applicable Law. No temporary restraining order, preliminary or permanent injunction, cease and desist order or other order issued by any court or other Governmental Authority or any other legal restraint or prohibition preventing the transfers contemplated by this Agreement or the consummation of the Closing, or imposing Damages in respect thereto, shall be in effect as of the Closing Date, and there shall be no pending or threatened actions or proceedings by any Governmental Authority (or determinations by any Governmental Authority) or by any other Person having jurisdiction with respect to such matter challenging or in any manner seeking to restrict or prohibit the transfer and exchange contemplated by this Agreement or the consummation of the Closing, or to impose conditions that would be materially burdensome on the Purchased Assets or the Purchaser (or any Affiliate or Associate of the Purchaser) or their respective businesses substantially as such businesses have been conducted prior to the Closing Date or as said businesses, as of the date of this Agreement, would be reasonably expected to be conducted after the Closing Date.

(e) Acquisition Documents. The Seller shall have executed and delivered to the Purchaser all Acquisition Documents to which the Seller is a party.

(f) QC Guarantee. The Seller shall have delivered to the Purchaser the QC Guarantee, in the form attached as Exhibit N (the "QC Guarantee"), executed by QC.

(g) No Material Adverse Change. There shall not have occurred and be continuing any event, circumstance or condition that has had, or is reasonably likely to have, a material adverse effect on the value or usability of the Purchased Assets or the ability of the Purchaser to operate the Facility after the Closing substantially as currently operated by the Seller. It is further

acknowledged that certain of the Purchased Assets, which may have no significant book value, are of material importance to the ongoing operations of the Facility.

(h) Opinion of Counsel. The Seller shall have delivered to the Purchaser an opinion of counsel in the form reasonably agreed to by the parties.

(i) Land Documents. The Seller shall have delivered to the Purchaser a copy of the issue document of title in relation to the Land, and a copy of the relevant quit rent receipt for the current year.

(j) Resolutions. The Seller shall have delivered to the Purchaser a certified copy of the resolutions of the Seller's shareholders approving this Agreement and the other Acquisition Documents.

8.02 Conditions to Obligations of the Seller. The obligations of the Seller to consummate the Closing are subject to the satisfaction or waiver of each of the following conditions:

(a) Performance by the Purchaser. (i) The Purchaser shall have performed and satisfied in all respects each of its obligations under this Agreement required to be performed and satisfied by it on or prior to the Closing Date, (ii) each of the representations and warranties of the Purchaser contained in this Agreement or in any of the other Acquisition Documents and in any Schedules or Exhibits to this Agreement or to any of the other Acquisition Documents shall have been true and correct in all material respects at and as of the Closing with the same force and effect as if made as of the Closing and (iii) the Seller shall have received a certificate signed by a duly authorized executive officer of the Purchaser to the foregoing effect and to the effect that the conditions specified within this Section 8.02(a) have been satisfied.

(b) Required Governmental Approvals. Subject to Section 7.01(b) above, all required Governmental Approvals shall have been obtained and in effect without the imposition of any conditions that are or would become applicable to the Seller (or any Affiliate or Associate of the Seller) after the Closing that would be materially burdensome on the Seller. Without limiting the generality of this Section 8.02(b), the parties hereby specifically acknowledge and agree that the revocation of the Seller's Pioneer tax status by the Malaysian tax authorities, as a result of the transactions contemplated in this Agreement, shall be deemed to be a condition that is materially burdensome on the Seller within the meaning of this Section 8.02(b); provided, however, the Seller may, in its sole discretion, provide an irrevocable notice to the Purchaser in writing of its intent to consummate the transactions contemplated by the this Agreement despite its revocation and/or denial of Pioneer tax status (the "Seller Pioneer Status Notice"); provided further, however, the Purchaser's receipt of a Seller Pioneer Status Notice shall in no way limit the rights of the Purchaser set forth in Section 8.01(b) above.

(c) Required Contractual Consents. All material consents, waivers or approvals (other than Governmental Approvals) shall have been obtained and in effect without the imposition of any conditions that are or would become applicable to the Seller (or any Affiliate or Associate of the Seller) after the Closing that would be materially burdensome on the Seller (or any Affiliate or Associate of the Seller).

(d) No Violation. The transactions contemplated by this Agreement and the other Acquisition Documents and the consummation of the Closing shall not violate any Applicable Law. No temporary restraining order, preliminary or permanent injunction, cease and desist order or other order issued by any court or other Governmental Authority or any other

legal restraint or prohibition preventing the transfer and exchange contemplated by this Agreement or the consummation of the Closing, or imposing Damages in respect thereto, shall be in effect as of the Closing Date, and there shall be no pending or threatened actions or proceedings by any Governmental Authority (or determinations by any Governmental Authority) or by any other Person challenging or in any manner seeking to materially restrict, prohibit or condition the transfer and exchange contemplated by this Agreement or the consummation of the Closing, or to impose conditions that would be materially burdensome on the Seller (or any Affiliate or Associate of the Seller) or their respective businesses substantially as such businesses have been conducted prior to the Closing Date or as said businesses, as of the date of this Agreement, would reasonably be expected to be conducted after the Closing Date.

(e) Acquisition Documents. The Purchaser shall have executed and delivered to the Seller all Acquisition Documents to which the Purchaser is a party.

(f) JC Guarantee. The Purchaser shall have delivered to the

Seller the JC Guarantee, in the form attached as Exhibit O (the "JC Guarantee"), executed by JC.

(g) Opinion of Counsel. The Purchaser shall have delivered to the Seller an opinion of counsel in the form reasonably agreed to by the parties.

(h) Resolutions. The Purchaser shall have delivered to the Seller a certified copy of the resolutions of the Purchaser's board of directors approving this Agreement and the other Acquisition Documents.

ARTICLE IX

INDEMNIFICATION

9.01. General Survival. The parties agree that, regardless of any investigation made by the parties, the representations, warranties, covenants and agreements (in the case of covenants and agreements, to the extent of performance or non-performance prior to the Closing Date) of the parties contained in this Agreement shall survive the execution and delivery of this Agreement for a period beginning on the date of this Agreement and ending at 5:00 p.m., Eastern (U.S.) time, on the date which is three years after the Closing Date; provided, that the matters set forth in Section 3.20 above shall survive until the expiration of the applicable Malaysian statute of limitations; provided further, that the matters set forth in Sections 9.02(a)(iii) and 9.02(b)(iii) below shall survive forever.

9.02. Indemnification.

(a) Indemnification Provisions for the Purchaser. Subject to the provisions of Section 9.01 above, from and after the Closing Date, the Seller shall indemnify and hold harmless the Purchaser and its respective Affiliates from and against and in respect of any and all Losses incurred by, resulting from, arising out of, relating to, imposed upon or incurred by the Purchaser or any of its respective Affiliates by reason of:

(i) any inaccuracy in or breach of any of the Seller's representations, warranties, covenants or agreements contained in this Agreement;

(ii) any misrepresentation contained in any Schedule or closing certificate furnished to the Purchaser by or on behalf of the Seller in connection with the transactions contemplated by this Agreement; or

(iii) any Excluded Liabilities.

(b) Indemnification Provisions for the Seller. Subject to provisions of Section 9.01 above, from and after the Closing Date, the Purchaser the shall indemnify and hold harmless the Seller and its respective Affiliates, from and against and in respect of any and all Losses incurred by, resulting from, arising out of, relating to, imposed upon or incurred by the Seller or any of its respective Affiliates by reason of:

(i) any inaccuracy in or breach of any of the Purchaser's representations, warranties, covenants or agreements contained in this Agreement;

(ii) any misrepresentation contained in any Schedule or closing certificate furnished to the Seller by or on behalf of the Purchaser in connection with the transactions contemplated by this Agreement; or

(iii) any Assumed Liabilities.

(c) For purposes of this Agreement, the term, "Losses" any and all deficiencies, judgments, settlements, Taxes, demands, claims, suits, means actions or causes of action, assessments, liabilities, losses, Damages (excluding indirect, incidental or consequential damages), interest, fines, penalties, costs and expenses (including reasonable legal, accounting and other costs and expenses) incurred in connection with investigating, defending, settling or satisfying any and all demands, claims, actions, causes of action, suits, proceedings, assessments, judgments or appeals, and in seeking indemnification therefor, and interest on any of the foregoing from the date a claim is made until paid at the reference rate of the Malaysian Bank. Notwithstanding the foregoing, Losses shall not include (i) expenses incurred in connection with investigations unless a claim is made or (ii) Losses

specifically identified in the Schedules or Exhibits to this Agreement.

(d) No party shall be entitled to indemnification for any Losses arising from the breach of any representation and warranty unless the amount of any Loss or series of related Losses arising out of the same event or circumstances (a "Claim") exceeds Twenty Five Thousand Dollars ($25,000) (the "De Minimis Amount"), at which time all Losses related to such Claim shall be subject to indemnification under this Agreement; provided, however, all Losses arising from or related to Taxes, Excluded Liabilities and Assumed Liabilities are subject to indemnification under this Agreement from the first dollar of Loss and are not subject to the De Minimis Amount. For example, if a party has five unrelated Claims equal to $20,000 each, such party shall not be entitled to indemnification under this Section; however, if such party has

a Claim equal to $75,000, the entire $75,000 shall be recoverable by such party under this Section.

(e) The amount of any Losses otherwise recoverable under this Section 9.02 shall be reduced by any amounts actually received by any party entitled to indemnification with respect to such Claim under insurance policies (net of any costs incurred in connection with the collection thereof).

9.03. Manner of Indemnification.

(a) Each claim for indemnification shall be made only in accordance with this Article IX.

(b) In the event that a party wishes to make a claim for Losses under this Article IX, such party shall deliver a written notice (a "Notice of Claim") to the other party. The Notice of Claim shall (i) specify in reasonable detail the nature of the claim being made, and (ii) state the aggregate dollar amount of such claim.

(c) If a party who receives a Notice of Claim wishes to object to the allowance of the claim made in a Notice of Claim, such party shall deliver a written objection to the other party within twenty (20) calendar days after receipt of such Notice of Claim expressing such objection and explaining in reasonable detail and in good faith the basis therefor. Following the receipt of such written objection, if any, the parties shall promptly meet to agree on the rights of the respective parties with respect to each of such claims. If the parties should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and amounts agreed upon shall be promptly paid. Any unresolved dispute between the parties shall be resolved in accordance with Sections 10.11 and 10.12 below and the other applicable provisions of this Agreement.

9.04. Third-Party Claims.

(a) If any Third Party shall notify either the Purchaser or the Seller (the "Indemnified Party") with respect to any matter (a "Third Party Claim") which may give rise to a claim for indemnification against the other (the "Indemnifying Party") under this Article IX, then the Indemnified Party shall promptly notify each Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying any Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(b) Any Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (i) the Indemnifying Party notifies the Indemnified Party in writing within 30 days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any damages the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (ii) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party

will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (iii) the Third Party Claim involves only money Damages and does not seek an injunction or other equitable relief, (iv) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to establish a precedential custom or practice adverse to the continuing business interests of the Indemnified Party, and (v) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(c) So long as the Indemnifying Party is conducting the

defense of the Third Party Claim in accordance with Section 9.04(b) above, (i) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (ii) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably), (iii) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld or delayed unreasonably), and (iv) the Indemnified Party shall furnish to the Indemnifying Party such assistance as the Indemnifying Party reasonably requests, in connection with the investigation, defense, settlement and discharge of any Third Party Claim.

(d) In the event any of the conditions in Section 9.04(b) above is or becomes unsatisfied, however, (i) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (ii) the Indemnifying Parties will reimburse the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (iii) the Indemnifying Parties will remain responsible for any Damages the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this Article IX.

9.05. Exclusive Remedy. Notwithstanding any other provision of this Agreement to the contrary, the provisions of this Article IX shall be the sole and exclusive remedy of the parties from and after the Closing Date for any claims arising under this Agreement, including claims of breach of any representation, warranty or covenant in this Agreement; provided, however, that the foregoing clause of this sentence shall not be deemed a waiver by any party of any right to specific performance or injunctive relief, or any remedy arising by reason of any claim of fraud with the respect to this Agreement. In that regard, other than claims arising out of fraud or arising from or related to the Excluded or Assumed Liabilities or Taxes, the total liability to the parties shall be limited to the Purchase Price.

ARTICLE X

MISCELLANEOUS

10.01 Notices. All notices and other communications pursuant to this Agreement shall be in writing and shall be deemed given if delivered personally, telecopied, sent by nationally-recognized overnight courier or mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at the addresses set forth below or to such other address as the party to whom notice is to be given may have furnished to the other parties to this Agreement in writing in accordance with this Agreement. Any such notice or communication shall be deemed to have been delivered and received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of telecopier, on the date sent if confirmation of receipt is received and such notice is also promptly mailed by registered or certified mail (return receipt requested), (c) in the case of a nationally-recognized overnight courier in circumstances under which such courier guarantees next Business Day delivery, on the next Business Day after the date when sent and (d) in the case of mailing, on the fifth Business Day following that on which the piece of mail containing such communication is posted:

if to the Seller, to:

Quantum Peripherals (M) Sdn. Bhd.
c/o Quantum Corporation
501 Sycamore Drive
Milpitas, California 95035
Attention: General Counsel and
Senior Corporate Counsel
Telephone: (408) 944-4464
Telecopy: (408) 944-6581

with copies to:

Quantum Peripherals (M) Sdn. Bhd.
c/o Quantum Corporation
10125 Federal Drive
Colorado Springs, Colorado 80908-4508
Attention: Vice President of Supply Chain and
Vice President of Operations
Telephone: (719) 536-5625
Telecopy: (719) 536-5580

Baker & McKenzie
Two Embarcadero Center
24th Floor
San Francisco, California 94111-3909
Attention: John F. McKenzie
Telephone: (415) 576-3033
Telecopy: (415) 576-3099

if to the Purchaser, to:

Jabil Circuit, Inc.
10560 9/th/ Street North
St. Petersburg, Florida 33716
Attention: President
Telecopy: (727) 579-8529

With copies to:

Jabil Circuit, Inc.
10560 9/th/ Street North
St. Petersburg, Florida 33716
Attention: General Counsel
Telecopy: (727) 803-3352

Holland & Knight LLP
400 North Ashley Drive
Suite 2300
Tampa, Florida 33602
Attention: Robert J. Grammig, Esq.
Telephone: (813) 227-8500
Telecopy: (813) 229-0134

or to such other address as the Person to whom notice is given may have previously furnished to the others in writing in the manner set forth above. Any party to this Agreement may give any notice, request, demand, claim or other communication under this Agreement using any other means (including ordinary mail or electronic mail), but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the individual for whom it is intended.

10.02 Amendments; Waivers.

(a) Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by all parties to this Agreement, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No waiver by a party of any default, misrepresentation or breach of a warranty or covenant under this Agreement, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of a warranty or covenant under this Agreement or affect in any way any rights arising by virtue of any prior or subsequent occurrence. No failure or delay by a party to this Agreement in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided in this Agreement shall be cumulative and not exclusive of any rights or remedies provided under Applicable Law.

10.03 Expenses. All costs and expenses incurred in connection with this Agreement and the other Acquisition Documents and in closing and carrying out the transactions contemplated by this Agreement and by the other Acquisition Documents shall be paid by the party incurring such cost or expense; provided, however, that: (i) those costs and expenses addressed in Sections 2.09 and 6.10 above respectively shall be allocated between the parties as specifically set forth in those Sections; and (ii) the Purchaser shall pay any Malaysian sales tax and Malaysian stamp duty in connection with any document or instrument entered into between the Purchaser and the Seller in which the Seller conveys the Purchased Assets and/or leases the Land pursuant to the Lease to the Purchaser; provided, however, that any tax which arises out of an instrument or transaction entered into between the Seller and a third party or by the Seller alone prior to said conveyance or Lease as aforesaid, shall be borne by the Seller.

10.04 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors, heirs, personal representatives and permitted assigns. Neither the

Purchaser nor the Seller may assign either this Agreement or any of its rights, interests or obligations under this Agreement to a Person who is not an Affiliate of the Purchaser or the Seller, as the case may be, without the prior written approval of the other party, which approval shall not be unreasonably withheld. No such assignment shall relieve the assigning party of its obligations under this Agreement if such assignee does not perform such obligations. For the purposes of this Section 10.04, a Change in Control shall be deemed an assignment.

10.05 Governing Law. This Agreement shall be construed in accordance with and governed by the internal laws (without reference to choice or conflict of laws) of the State of Florida.

10.06 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts and the signatures delivered by telecopy, each of which shall be an original, with the same effect as if the signatures were upon the same instrument and delivered in person. This Agreement shall become effective when each party to this Agreement shall have received a counterpart of this Agreement signed by the other parties to this Agreement.

10.07 Entire Agreement. This Agreement (including the Schedules and Exhibits referred to in this Agreement, which are incorporated by reference), the other Acquisition Documents and the NDA constitute the entire agreement between and among the parties with respect to the subject matter of this Agreement and of the other Acquisition Documents and the

NDA and supersede all prior and contemporaneous agreements, understandings and negotiations, both written and oral, between and among the parties with respect to the subject matter of this Agreement. Neither this Agreement nor any provision of this Agreement is intended to confer upon any Person other than the parties hereto any rights or remedies under this Agreement. The Seller does not warrant the accuracy of any oral or written information provided to the Purchaser, including forecasts, that is not contained in this Agreement (including the Schedules and Exhibits referred to in this Agreement, which are incorporated by reference) and the other Acquisition Documents (regardless of whether such information was provided prior to or contemporaneously with this Agreement).

10.08 Interpretive Matters. For the purposes of this Agreement, (a) the captions in this Agreement are included for convenience of reference only and shall be ignored in the construction or interpretation of this Agreement; (b) all references to an Article, Section, Exhibit or Schedule are references to an Article, Section, Exhibit or Schedule of this Agreement, unless otherwise specified, and include all subparts thereof; (c) all references to "$" or dollar amounts will be to lawful currency of the United States; and (d) words in the singular include words in the plural and vice versa.

10.09 Severability. If any provision of this Agreement, or the application of the Agreement to any Person, place or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable or void, the remainder of this Agreement and such provisions as applied to other Persons, places and circumstances shall remain in full force and effect only if, after excluding the portion deemed to be unenforceable, the remaining terms shall provide for the consummation of the transactions contemplated by this Agreement in substantially the same manner as originally set forth at the later of the date this Agreement was executed or last amended.

10.10 Construction. The parties to this Agreement intend that each representation, warranty, and covenant contained in this Agreement shall have independent significance. If any party has breached any representation, warranty or covenant contained in this Agreement in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) that the party has not breached shall not detract from or mitigate the fact that the party is in breach of the first representation, warranty or covenant.

10.11 Dispute Resolution.

(a) All disputes arising directly under the express terms of this Agreement or the grounds for termination of this Agreement shall be submitted to arbitration in either Wilmington or Dover, Delaware before a single arbitrator selected in accordance with the rules and procedures of the American Arbitration Association and shall be conducted in accordance with the applicable laws of Florida, as the exclusive remedy of such dispute. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including permanent injunctive relief or specific performance, or both, and the arbitrator is hereby empowered to award such relief. Any award or relief granted by the

arbitrator shall be final and binding on the parties and may be enforced by any court having jurisdiction.

(b) Notwithstanding the provisions of Section 10.11(a) above, each party shall have the right, without the requirement of first seeking a remedy through arbitration, to seek preliminary injunctive or other equitable relief in any proper court in the event that such party determines that eventual redress through arbitration will not provide a sufficient remedy for any violation of this Agreement by any other party.

(c) In the event a Proceeding is brought to enforce or interpret any provision of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs in an amount to be fixed by the court or arbitrator, as applicable.

10.12 Meaning of Include and Including. Whenever in this Agreement the word "include" or "including" is used, it shall be deemed to mean "include, without limitation" or "including, without limitation," as the case may be, and the language following "include" or "including" shall not be deemed to set forth an exhaustive list.

10.13 Cumulative Remedies. Subject to the provisions of Section 9.05 above, the rights, remedies, powers and privileges in this Agreement provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided under Applicable Law.

10.14 Third Party Beneficiaries. No provision of this Agreement shall create any Third Party beneficiary rights in any Person, including any employee or former employee of the Seller or any Affiliate or Associate of the Seller, including any beneficiary or dependent of the Seller.

10.15 Specific Performance. The parties acknowledge and agree that the failure of any party to perform its agreements and covenants under this Agreement, including its failure to take all actions as are necessary on its part to the consummation of the transactions contemplated in this Agreement, may cause irreparable injury to the other parties, for which Damages, even if available, may not be an adequate remedy. Accordingly, each party consents to the issuance of injunctive relief by any Malaysian court of competent jurisdiction to compel performance of such party's obligations and to the granting by such court of the remedy of specific performance of its obligations under this Agreement.

10.16 Survival. The representations and warranties and covenants of the parties shall survive the Closing for the period set forth in Section 9.01 above.

10.17 Time. Time is of the essence with respect to all of the provisions of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

SELLER:

Quantum Peripherals (M) Sdn. Bhd.,

a corporation organized under the laws of Malaysia

By: /s/ Michael Brown

Name: Michael Brown

Title: Chairman

PURCHASER:

Jabil Circuit Sdn. Bhd.,
a corporation organized under the laws of Malaysia

By: /s/ Forbes I.J. Alexander

Name: Forbes I.J. Alexander

Title: Director

Exhibit 10.2

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

QUANTUM CORPORATION,

BENCHMARK STORAGE INNOVATIONS, INC.

AND

JESSE AWEIDA, AS STOCKHOLDERS' AGENT

September 5, 2002

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of September 5, 2002, by and among Quantum Corporation, a Delaware corporation

("Parent"), Benchmark Storage Innovations, Inc., a Delaware corporation (the "Company"), and Jesse Aweida, as Stockholders' Agent (the "Stockholders' Agent").

RECITALS

WHEREAS, the Board of Directors of Parent has approved, and deems it advisable and in the best interests of its stockholders to consummate, the merger (the "Merger") of the Company with and into Parent, upon the terms and subject to the conditions set forth herein; and

WHEREAS, the Board of Directors of the Company, having carefully considered the long-term prospects and interests of the Company and its stockholders, has approved the transactions contemplated hereby and has resolved to recommend to the stockholders of the Company the approval and adoption of this Agreement and the consummation of the transactions contemplated hereby, upon the terms and subject to the conditions set forth herein; and

WHEREAS, as a condition and inducement to Parent to enter into this Agreement and incur the obligations set forth herein, concurrently with the execution and delivery of this Agreement, Parent and the holders of at least a majority of the outstanding shares of Company Common Stock and the holders of at least a majority of the outstanding shares of Company Preferred Stock have entered into Stockholder Agreements in the form of Exhibit A attached hereto (the "Stockholder Agreements"), pursuant to which, among other things, such holders have agreed to vote shares of Company Common Stock and/or Company Preferred Stock held by them in favor of approval and adoption of this Agreement; and

WHEREAS, the Boards of Directors of each of Parent and the Company have approved this Agreement and the transactions contemplated hereby in accordance with the provisions of the Delaware General Corporation Law ("Delaware Law"); and

WHEREAS, it is intended that the Merger qualify as a reorganization and this Agreement constitutes a plan of reorganization within the meaning of section 368(a) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code").

NOW, THEREFORE, in consideration of the covenants and representations set forth herein, and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

THE MERGER

Section 1.1 The Merger

At the Effective Time and subject to and upon the terms and conditions of this Agreement and the applicable provisions of Delaware Law, the Company shall be merged with and into Parent, the separate corporate existence of the Company shall cease and Parent shall continue as the surviving corporation. Parent, as the surviving corporation after the Merger, is hereinafter sometimes referred to as the "Surviving Corporation."

Section 1.2 Closing

The closing of the Merger (the "Closing") shall take place at 10:00 a.m., Palo Alto, California time, on a date to be specified by the parties, which shall be no later than the third business day after satisfaction or waiver of all of the conditions set forth in Article VI of this Agreement (the "Closing Date"), at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 525 University Avenue, Palo Alto, California 94301, unless another time, date or place is agreed to in writing by the parties hereto.

Section 1.3 Effective Time

Upon the terms and subject to the conditions set forth in Article VI of this Agreement the parties hereto shall cause the Merger to be consummated by filing a certificate of merger with the Secretary of State of the State of Delaware. The parties hereto shall make all other filings, recordings or publications required by all applicable law in connection with the Merger. The Merger shall become effective at the time specified in the certificate of merger, which specified time shall be a time on the Closing Date (the time at which the Merger becomes effective being the "Effective Time").

Section 1.4 Effect of the Merger

At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers, and franchises of the Company and Parent shall vest in the Surviving Corporation, and all debts, liabilities, and duties of the

Company and Parent shall become the debts, liabilities, and duties of the Surviving Corporation.

Section 1.5 Certificate of Incorporation; Bylaws

(a) Immediately after the Effective Time of the Merger, the certificate of incorporation of the Surviving Corporation shall be the certificate of incorporation of Parent as in effect immediately prior to the Effective Time, and such certificate of incorporation shall be the certificate of incorporation of the Surviving Corporation until thereafter amended as provided by law and such certificate of incorporation of the Surviving Corporation.

(b) Immediately after the Effective Time of the Merger, the bylaws of Surviving Corporation shall be the bylaws of Parent as in effect immediately prior to the Effective Time, and such bylaws shall be the bylaws of the Surviving Corporation until thereafter amended as provided by law and such bylaws of the Surviving Corporation.

Section 1.6 Directors; Officers

(a) The directors of Parent at the Effective Time of the Merger shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be. In furtherance thereof, the Company shall secure, effective at the Effective Time of the Merger, resignations of all of its incumbent directors then serving as members of the board of directors of the Company (the "Company Board").

(b) The officers of Parent at the Effective Time of the Merger shall be the officers of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

Section 1.7 Effect on Capital Stock

By virtue of the Merger and without any action on the part of Parent, the Company or the holders of any of the Company's securities:

(a) Conversion of Company Capital Stock. The number of shares of common stock, $0.01 par value per share of Parent, together with the associated rights (the "Associated Rights") to purchase shares of Series B Junior Participating Preferred Stock, par value $.01 per share, of Parent issued and issuable pursuant to the Amended and Restated Preferred Shares Rights Agreement between Parent and Harris Trust and Savings Bank, as Rights Agent (the "Parent Common Stock"), to be issued (including Parent Common Stock to be reserved for issuance upon the exercise, prior to the Effective Time of the Merger, of options ("Company Options") to purchase shares of common stock, $.001 par value per share, of the Company ("Company Common Stock") in accordance with the provisions of Section 5.8 hereof (after giving effect to Section 1.7(e))) in exchange for the acquisition by Parent of the Company Capital Stock and all unexpired and unexercised options, warrants and other rights (whether issued or unissued, vested or unvested, earned or unearned, exercisable or unexercisable, or subject to any contingency or triggering event, or otherwise) to acquire Company Capital Stock shall be equal to 13,085,646 (the "Total Parent Shares"), reduced by the number of shares of Parent Common Stock that would otherwise be issuable to the holders of any Dissenting Shares pursuant to the Exchange Ratios and by the number of shares calculated pursuant to the proviso set forth in Section 1.7(a)(5). No adjustment shall be made in the number of shares of Parent Common Stock issued in the Merger, including as a result of (x) any increase or decrease in the market price of Parent Common Stock prior to the Effective Time not otherwise required by this Section 1.7(a) or (y) any cash proceeds received by the Company from the date hereof to the Closing Date pursuant to the exercise of currently outstanding options, warrants or other rights to acquire Company Common Stock.

In addition to the Total Parent Shares, Parent will distribute $11,000,000 in immediately available United States funds (the "Cash Consideration") to the holders of the Company Capital Stock and all unexpired and unexercised options, warrants and other rights (whether issued or unissued, vested or unvested, earned or unearned, exercisable or unexercisable, or subject to any contingency or triggering event, or otherwise) to acquire Company Capital Stock (after giving effect to Section 1.7(e)), reduced by the portion of such Cash Consideration that would otherwise be distributed to the holders of any Dissenting Shares

pursuant to the Exchange Ratios and subject to adjustment pursuant to the terms of Section 7.3(a). The Cash Consideration, together with the Total Parent Shares, shall be referred to herein as the "Total Consideration".

In addition to the Total Consideration, Parent will issue up to 1,896,471 additional shares of Parent Common Stock (the "Earnout Shares") on the dates and according to the terms provided in Exhibit E attached hereto, subject to deduction for payment of Damages as provided in Article VIII hereof (the terms of this paragraph and Exhibit E to be referred to herein generally as the "Earnout"). Notwithstanding anything to the contrary in this Agreement, in no event shall the Parent issue more than the Total Parent Shares (less that number of shares calculated pursuant to the proviso set forth in Section 1.7(a)(5)) plus the Cash Consideration plus any shares issuable pursuant to the Earnout in connection with the transactions contemplated by this Agreement and the Ancillary Agreements.

For purposes of this Agreement, "Company Capital Stock" means, collectively, all Company Common Stock; all shares of Series A1 Preferred Stock of the Company (collectively "Series A1 Preferred Stock"); all shares of Series A2 Preferred Stock of the Company (collectively "Series A2 Preferred Stock"); all shares of Series B Preferred Stock of the Company (collectively "Series B Preferred Stock"); all shares of Series C Preferred Stock of the Company (collectively "Series C Preferred Stock" and, together with the Series A1 Preferred Stock, Series A2 Preferred Stock and Series B Preferred Stock, the "Company Preferred Stock").

Subject to the terms and conditions of this Agreement, as of the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of Company Capital Stock:

(1) Each issued and outstanding share of Company Capital Stock not held by Parent, other than Dissenting Shares, shall be converted into the right to receive from Parent shares of Parent Common Stock and a portion of the Cash Consideration. The number of shares of Parent Common Stock into which each share of Company Preferred Stock and each share of Company Common Stock shall be converted shall be determined by allocating the Total Parent Shares (minus the number of shares of Parent Common Stock that would otherwise be issuable to the holders of any Dissenting Shares) to the holders of Company Capital Stock other than Parent on a fully diluted basis (assuming conversion of all outstanding notes convertible to Company Capital Stock and the exercise of all outstanding Company Warrants, Company Options and other rights to purchase Company Capital Stock, whether vested or unvested and regardless of any restrictions on conversion or exercise) in accordance with the provisions of the Company's Amended and Restated Certificate of Incorporation as in effect immediately prior to the Effective Time and thereby deriving an exchange ratio for each share of Company Common Stock (the "Company Common Stock Exchange Ratio"), an exchange ratio for each share of Series A1 Preferred Stock (the "Series A1 Preferred Stock Exchange Ratio"), an exchange ratio for each share of Series A2 Preferred Stock (the "Series A2 Preferred Stock Exchange Ratio"), an exchange ratio for each share of Series B Preferred Stock (the "Series B Preferred Stock Exchange Ratio"), and an exchange ratio for each share of Series C Preferred Stock (the "Series C Preferred Stock Exchange Ratio", which Series C Preferred Stock Exchange Ratio, together with the Series A1 Preferred Stock Exchange Ratio, the Series A2 Preferred Stock Exchange

Ratio, the Series B Preferred Stock Exchange Ratio, and the Company Common Stock Exchange Ratio, is hereafter referred to as the "Exchange Ratios"). The method for calculating the Exchange Ratios in accordance with the Company's Amended and Restated Certificate of Incorporation (the "Company Certificate of Incorporation") is set forth on Exhibit F hereto. The Cash Consideration shall be distributed to the holders of Company Capital Stock other than Parent on a fully diluted basis (assuming conversion of all outstanding notes convertible to Company Capital Stock and the exercise of all outstanding Company Warrants, Company Options and other rights to purchase Company Capital Stock, whether vested or unvested and regardless of any restrictions on conversion or exercise) in accordance with the provisions of the Company's Amended and Restated Certificate of Incorporation as in effect immediately prior to the Effective Time. The method for allocating the Cash Consideration in accordance with the Company Certificate of Incorporation is set forth on Exhibit G hereto.

(2) The number of shares of Parent Common Stock to be issued at the Effective Time and the amount of the Cash Consideration to be distributed at the Effective Time to each holder of Company Common Stock, Series A1 Preferred Stock, Series A2 Preferred Stock, Series B Preferred Stock and Series C Preferred Stock other than Parent shall be equal to the amounts calculated in accordance with Exhibit G hereto. The shares of Parent Common Stock and amount of cash issued pursuant to this Section 1.7(a) shall be referred to herein as the "Merger Consideration."

(3) At any time additional shares ("Additional Shares") of Parent Common Stock are to be issued pursuant to the Earnout, such shares shall be issued and allocated to holders of Company Capital Stock in the manner provided in Exhibit H hereto.

(4) The Company's Stock Option Plan (the "Company Stock Option Plan"), which is also referred to herein as the "Company Stock Plans", each Company Option and each other right related to the equity securities of the Company granted thereunder (the "Company Stock Rights") in each case outstanding immediately prior to the Effective Time of the Merger shall terminate effective as of the Effective Time of the Merger and all rights under the Company Stock Plans, the Company Options, the Company Stock Rights and any provision of any other plan, program, agreement or arrangement providing for the issuance or grant of any other interest in respect of the Company Capital Stock shall be cancelled effective as of the Effective Time of the Merger. The Company shall take all action necessary to effectuate the foregoing, including, but not limited to, providing adequate notice and obtaining all consents necessary to (a) cancel all Company Options and Company Stock Rights, and (b) ensure that, at and after the Effective Time of the Merger, no person shall have any right under the Company Stock Plans, any agreements thereunder, or any other plan, program, agreement or arrangement with respect to equity securities of the Company.

(5) The Company will use all reasonable efforts to ensure that all outstanding warrants to purchase shares of Company Capital Stock (collectively, the "Company Warrants") are exercised in full, whether pursuant to a cashless exercise or otherwise, or surrendered and terminated prior to the Closing without expenditure of funds from the Company such that no Company Warrant shall remain outstanding

following the Closing. Any Company Warrant that nonetheless remains outstanding at the Effective Time shall become exercisable for Parent Common Stock and/or cash in accordance with the terms of such Company Warrant; provided that for each Company Warrant exercisable for Company Common Stock assumed by Parent, the Total Parent Shares shall be reduced by $0.20 divided by $4.25 (the "Parent Stock Price") and for each Company Warrant exercisable for Company Preferred Stock, the Total Parent Shares shall be reduced by $1.00 divided by the Parent Stock Price.

(b) [Intentionally omitted.]

(c) Adjustments to Exchange Ratios. The Company Common Stock Exchange Ratio, the Series A1 Preferred Stock Exchange Ratio, the Series A2 Preferred Stock Exchange Ratio, the Series B Preferred Stock Exchange Ratio, and the Series C Preferred Stock Exchange Ratio shall be adjusted to reflect fully the effect of any stock split, reverse split, stock dividend (including any dividend or distribution of securities convertible into Parent Common Stock or Company Capital Stock), reorganization, recapitalization or other like change with respect to Parent Common Stock or Company Capital Stock occurring after the date hereof and prior to the Effective Time.

(d) Appraisal Rights.

(1) Notwithstanding any provision of this Agreement to the contrary, any shares of Company Common Stock or Company Preferred Stock held by a holder who has demanded and perfected appraisal rights for such shares in accordance with Section 262 of Delaware Law and who, as of the Effective Time, has not effectively withdrawn or lost such appraisal rights ("Dissenting Shares"), shall not be converted into or represent a right to receive the Merger Consideration pursuant to Section 1.7(a), but the holder thereof shall only be entitled to such rights as are granted by Delaware Law. From and after the Effective Time, a holder of Dissenting Shares shall not be entitled to exercise any of the voting rights or other rights of a stockholder of the Surviving Corporation.

(2) Notwithstanding the provisions of Section 1.7(d)(1), if any holder of shares of Company Common Stock or Company Preferred Stock who demands appraisal of such holder's shares of Company Common Stock or Company Preferred Stock under Delaware Law shall effectively withdraw or lose (through failure to perfect or otherwise) his right to appraisal, then as of the later of the Effective Time or the occurrence of such event, such holder's shares of Company Common Stock or Company Preferred Stock shall automatically be converted into and represent only the right to receive the Merger Consideration without interest, upon surrender of the certificate or certificates representing such shares of Company Common Stock or Company Preferred Stock (each such certificate, a "Company Certificate") pursuant to Section 1.8.

(3) The Company shall give Parent (i) prompt notice of any written demands for appraisal or dissenters' rights or payment of the fair value of any shares of Company Common Stock or Company Preferred Stock, withdrawals of such demands, and any other instruments served on the Company pursuant to applicable law and received by the Company, and (ii) the opportunity to direct all negotiations and

proceedings with respect to demands for appraisal under Delaware Law. Except with the prior written consent of Parent, the Company shall not voluntarily make any payment with respect to any demands for appraisal of or dissenters' rights on capital stock of the Company or settle, or offer to settle, any such demands.

(e) Cancellation of Company Capital Stock and Company Warrants Owned by Parent. Notwithstanding Section 1.7(a) or anything to the contrary set forth in this Agreement, at the Effective Time, each share of Company Capital Stock and each Company Warrant owned by Parent or any direct or indirect wholly owned subsidiary of Parent or of the Company immediately prior to the Effective Time shall be cancelled and extinguished without any conversion thereof.

(f) Fractional Shares. No fraction of a share of Parent Common Stock will be issued in the Merger, but in lieu thereof, the Escrow Fund and each holder of shares of Company Capital Stock who would otherwise be entitled to a fractional share of Parent Common Stock (after aggregating all fractional shares of Parent Common Stock to be received by the Escrow Fund or such holder) shall be entitled to receive from Parent an amount of cash (rounded to the nearest whole cent) equal to the product of (i) such fraction, multiplied by (ii) the Parent Stock Price.

Section 1.8 Surrender of Certificates

(a) Exchange Agent. Computershare Investor Services shall act as exchange agent (the "Exchange Agent") in the Merger.

(b) Parent to Provide Common Stock and Cash Consideration. As soon as possible after the Effective Time (and in no event later than three (3) business days thereafter), Parent shall deliver to the Exchange Agent for exchange and payment in accordance with this Article I, through such reasonable procedures as Parent may adopt, the shares of Parent Common Stock and Cash Consideration issuable or distributable pursuant to Section 1.7(a) in exchange for shares of Company Common Stock, Company Preferred Stock and Company Warrants outstanding immediately prior to the Effective Time.

(c) Exchange Procedures. (A) As soon as possible after the Effective Time (and in no event later than three (3) business days thereafter), the Surviving Corporation shall cause to be mailed to each holder of record of a Company Certificate, whose shares were converted into the right to receive the Merger Consideration (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Company Certificates shall pass, only upon receipt of the Company Certificates by the Exchange Agent, and shall be in such form and have such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Company Certificates in exchange for certificates representing shares of Parent Common Stock, a portion of the Cash Consideration, and cash in lieu of fractional shares. Upon surrender of a Company Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, the holder of such Company Certificate shall be entitled to receive in exchange therefor (i) a certificate representing the number of whole shares of Parent Common Stock which such holder has the right to receive pursuant to Section 1.7(a) (less the applicable

proportion of the Escrow Shares attributable to such holder), (ii) payment of the amount of the Cash Consideration which such holder has the right to receive pursuant to Section 1.7(a), and (iii) payment in lieu of fractional shares which such holder has the right to receive pursuant to Section 1.7(f), and the Company Certificate so surrendered shall forthwith be cancelled. No interest shall accrue or be payable with respect to the Cash Consideration. Until so surrendered, each outstanding Company Certificate that, prior to the Effective Time, represented shares of Company Capital Stock will be deemed from and after the Effective Time, for all corporate purposes, other than the payment of dividends, to the extent set forth in Section 1.8(e), to evidence (i) the ownership of the number of full shares of Parent Common Stock into which such shares of Company Capital Stock shall have been so converted, (ii) the right to receive a portion of the Cash Consideration in accordance with Section 1.7(a), and (iii) the right to receive an amount in cash in lieu of the issuance of any fractional shares in accordance with Section 1.7(f). As soon as practicable after the Effective Time, and subject to, and in accordance with, the provisions of Article VIII, Parent shall cause to be distributed to the Escrow Agent a certificate or certificates representing 1,567,388 shares of Parent Common Stock (the "Escrow Shares"), which shall be registered in the name of the Escrow Agent as nominee for the holders of Company Certificates cancelled pursuant to Section 1.7. The Escrow Shares shall be beneficially owned by such holders and shall be held in escrow and shall be available to compensate Parent for Damages as provided in Article VIII. Such shares and cash shall be released, subject to and in accordance with the provisions of Article VIII and the Escrow Agreement.

(d) Conversion Schedule. Attached as Schedule 1.8 is a schedule (the "Preliminary Conversion Schedule") showing the number of shares of Parent Common Stock and amount of the Cash Consideration to be issued or distributed to the holders of Company Common Stock and each series of Company Preferred Stock, subject to reasonable assumptions as to the expected treatment of Company Warrants and the other assumptions set forth therein, and other rights to purchase Company Capital Stock outstanding as of the date hereof and assuming the treatment of the Company Options as provided in Section 5.8. The Company shall prepare a final schedule as of the Effective Time (the "Final Conversion Schedule") showing the number of shares of Parent Common Stock and the amount of Cash Consideration to be issued or distributed to each individual holder of Company Common Stock, Company Preferred Stock, Company Options and Company Warrants (if any) outstanding immediately prior to the Effective Time, and an officer of the Company shall certify that the Final Conversion Schedule has been prepared on a basis consistent with the Preliminary Conversion Schedule and correctly reflects the calculations required to be made pursuant to this Agreement, and the Company shall deliver the Final Conversion Schedule together with such certification to Parent at Closing.

(e) Distributions With Respect to Unexchanged Shares. No dividends or other distributions with respect to Parent Common Stock with a record date after the Effective Time will be paid to the holder of any unsurrendered Company Certificate with respect to the shares of Parent Common Stock represented thereby until the holder of record of such Company Certificate shall surrender such Company Certificate. Subject to applicable law, following surrender of any such Company Certificate, there shall be paid to the record holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, at the time of such surrender, the amount of any such dividends or other distributions with a record date after the Effective Time theretofore payable with respect to such shares of Parent Common Stock.

(f) Transfers of Ownership. If any certificate for shares of Parent Common Stock is to be issued in, or any amount of the Cash Consideration is to be distributed to, a name other than that in which the Company Certificate surrendered in exchange therefor is registered, it will be a condition of the issuance thereof that the Company Certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the person requesting such exchange will have paid to Parent or any agent designated by it any transfer or other taxes required by reason of the issuance of a certificate for shares of Parent Common Stock in or payment of cash to any name other than that of the registered holder of the Company Certificate surrendered, or established to the satisfaction of Parent or any agent designated by it that such tax has been paid or is not payable.

(g) No Liability. Notwithstanding anything to the contrary in this Section 1.8, none of the Exchange Agent, the Surviving Corporation or any party hereto shall be liable to any person for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

(h) Dissenting Shares. The provisions of this Section 1.8 shall also apply to Dissenting Shares that lose their status as such, except that the obligations of Parent under this Section 1.8 shall commence on the date of loss of such status and the holder of such shares shall be entitled to receive in exchange for such shares the Merger Consideration.

Section 1.9 No Further Ownership Rights in Company Capital Stock

All shares of Parent Common Stock and cash issued or distributed upon the surrender for exchange of Company Certificates in accordance with the terms hereof (including any cash paid in lieu of fractional shares) shall be deemed to have been issued (and paid) in full satisfaction of all rights pertaining to such shares of Company Capital Stock, and there shall be no further registration of transfers on the records of the Surviving Corporation of Company Capital Stock which was outstanding immediately prior to the Effective Time. If, after the Effective Time, Company Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article I.

Section 1.10 Lost, Stolen or Destroyed Certificates

In the event that any Company Certificates shall have been lost, stolen or destroyed, the Exchange Agent shall issue and pay in exchange for such lost, stolen or destroyed Company Certificates, upon the making of an affidavit of that fact by the holder thereof, such shares of Parent Common Stock, amount of the Cash Consideration, and payment of cash in lieu of fractional shares as may be required pursuant to Section 1.7; provided, however, that Parent may, in its reasonable discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Company Certificates to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against Parent, the Surviving Corporation or the Exchange

Agent with respect to the Company Certificates alleged to have been lost, stolen or destroyed.

Section 1.11 Tax Consequences

It is intended by the parties hereto that the Merger shall constitute a reorganization within the meaning of section 368(a) of the Code. The shares of Parent Common Stock to be issued in the Merger are being delivered solely in exchange for Company Capital Stock, and no portion thereof is to be allocated for tax purposes to any of the covenants or undertakings of any party hereto.

Section 1.12 Taking of Necessary Action; Further Action

If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Company, the officers and directors of Parent, the Company and the Surviving Corporation are fully authorized in the name of their respective corporations or otherwise to take, and will take, all such lawful and necessary action, so long as such action is not inconsistent with this Agreement.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Any reference to any event, change, condition or effect being "material" with respect to any entity or group of entities means any event, change, condition or effect which (i) is material to the condition (financial or otherwise), properties, assets (including intangible assets), prospects, liabilities, business, operations or results of operations of such entity or group of entities, taken as a whole, or (ii) would prevent or materially alter or delay any of the transactions contemplated by this Agreement or the Ancillary Agreements. Any reference to a "Company Material Adverse Effect" means any event, change or effect that (x) is materially adverse to the condition (financial or otherwise), properties, assets, prospects, liabilities, business, operations or results of operations of the Company and its subsidiaries, taken as a whole, or (y) would prevent or materially alter or delay any of the transactions contemplated by this Agreement except, for each of (x) and (y) above, to the extent that such event, change, condition or effect results from changes in general economic conditions, or from changes affecting the industry generally in which the Company operates.

Any reference to a party's "knowledge" means (i) with respect to any natural person, the actual knowledge, of such person, or (ii) with respect to any corporation or entity, the actual knowledge of such party's executive officers and directors (which consist, in the case of the Company, of the following titled officers or directors: Jesse Aweida, Lewis Frauenfelder, Daniel Aweida, George Saliba, Robert Beckemeyer, Michael Befeler, John Herron, Charlene Murphy, Jesse Parker, Steven Berens, and Michael O'Keeffe) provided that such persons shall have made reasonable inquiry of those employees of such party whom such officers and directors reasonably believe would have actual knowledge of the matters represented.

Except as disclosed in that section of the document of even date herewith delivered by the Company to Parent prior to the execution and delivery of this Agreement (the "Company Disclosure Schedule") corresponding to the Section of this Agreement to which any

of the following representations or warranties pertain, the Company represents and warrants to Parent as follows:

Section 2.1 Organization, Standing and Power

The Company and each of its subsidiaries is a corporation duly organized and validly existing and in good standing under the laws of its jurisdiction of organization. Section 2.1 of the Company Disclosure Schedule lists each entity that is a subsidiary or affiliated company, and any other business entity which the Company otherwise directly or indirectly controls. Each of the Company and its subsidiaries has the requisite power to own its properties and to carry on its business as now being conducted and as currently proposed to be conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified and in good standing would have a Company Material Adverse Effect. The Company has delivered a true and correct copy of the Certificate of Incorporation and Bylaws of the Company and each of its subsidiaries, each as amended to date, to Parent. Neither the Company nor any of its subsidiaries is in violation of any of the provisions of its Certificate of Incorporation, Bylaws or equivalent charter

documents, if any. Except for the entities identified in Section 2.1 of the Company Disclosure Schedule, the Company does not directly or indirectly own any equity or similar interest in, or any interest convertible or exchangeable or exercisable for, any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity.

Section 2.2 Capitalization; Title to the Shares

(a) Capitalization. As of the date hereof, the authorized capital stock of the Company consists of (i) 40,000,000 shares of Company Common Stock, of which 2,150,031 shares (not including any treasury shares) are issued and outstanding; and (ii) 30,000,000 shares of Company Preferred Stock, of which 2,666,667 shares have been designated Series A1 Preferred Stock all of which are issued and outstanding, 8,000,000 shares have been designated Series A2 Preferred Stock all of which are issued and outstanding, 3,032,000 shares have been designated Series B Preferred Stock all of which are issued and outstanding, and 15,000,000 shares have been designated Series C Preferred Stock, of which 10,102,500 are issued and outstanding. As of the date hereof, (i) 4,128,333 shares of Company Common Stock are reserved for issuance upon the exercise of options that have been granted and are outstanding pursuant to the Company Stock Option Plan; (ii) 910,000 shares of Company Common Stock are reserved for issuance upon the exercise of outstanding Common Stock warrants and 4,158,250 shares of Series C Preferred Stock are reserved for issuance upon the exercise of outstanding Series C Preferred Stock warrants; and (iii) 2,000,000 shares of Company Common Stock are comitted under certain contracts to issue Common Stock warrants, subject to certain conditions. All of the outstanding shares of Company Capital Stock are, and all shares of Company Capital Stock which may be issued pursuant to the exercise of outstanding Company Options and Company Warrants will be, when issued in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and non-assessable. The rights, preferences and privileges of the Company Preferred Stock are as set forth in the Company Certificate of Incorporation. Since the date of the filing of the Company Certificate of Incorporation, there have not occurred any events that would cause any adjustment or readjustment in the applicable conversion prices of such Company Preferred Stock. Each share of Company Preferred Stock is currently convertible into one share of Company Common Stock.

Except as set forth above, and in Schedule 2.2(b), as of the date hereof, (i) there are no shares of Company Capital Stock or any other securities authorized, issued or outstanding; (ii) there are no existing options, warrants, calls, preemptive rights, indebtedness having general voting rights or debt convertible into securities having such rights ("Voting Debt") or subscriptions or other rights, agreements, arrangements or commitments of any character, relating to the issued or unissued capital stock of the Company obligating the Company to issue, transfer or sell or cause to be issued, transferred or sold any shares of capital stock or Voting Debt of, or other equity interest in, the Company or securities convertible into or exchangeable for such shares or equity interests, or obligating the Company to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement, arrangement or commitment, (iii) there are no outstanding contractual obligations of the Company to repurchase, redeem or otherwise acquire any Company Capital Stock, or other capital stock of the Company or to provide funds to make any investment (in the form of a loan, capital contribution or otherwise) in any other entity, and (iv) there are no outstanding rights of the Company to repurchase unvested shares of Company Capital Stock.

There are no voting trusts or other agreements or understandings to which the Company is a party with respect to the voting of the capital stock of the Company.

Following the Effective Time, no holder of Company Options will have any right to receive shares of common stock of the Surviving Corporation upon exercise of Company Options.

No Indebtedness of the Company contains any restriction upon (i) the prepayment of any of such Indebtedness, (ii) the incurrence of Indebtedness by the Company, or (iii) the ability of the Company to grant any lien on its properties or assets. For purposes of this Agreement, "Indebtedness" shall mean (i) all indebtedness for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), (ii) any other indebtedness that is evidenced by a note, bond, debenture or similar instrument, (iii) all obligations under financing leases, (iv) all obligations in respect of acceptances issued or created, (v) all liabilities secured by any lien on any property and (vi) all guarantee obligations. Section 2.2(a) of the Company Disclosure Schedule sets forth a true, complete and correct list of all Indebtedness of the Company as of the date of this Agreement.

(b) Title to the Shares. Schedule 2.2(b) sets forth a true, complete and correct list of each legal and beneficial owner of Company securities and the number and class of such securities owned by each such

holder.

Section 2.3 Authority

The Company has the requisite power and authority to enter into this Agreement and the other agreements set forth in the exhibits hereto (collectively, the "Ancillary Agreements") to which the Company is a party and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements to which the Company is a party and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on

the part of the Company, except for stockholder approval which will be sought after the date hereof. This Agreement and each Ancillary Agreement to which the Company is a party have been duly executed and delivered by the Company and constitute the valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except to the extent that enforceability may be limited by the effect, if any, of (i) any applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally, (ii) general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity, and (iii) the enforceability of provisions requiring indemnification. The execution and delivery of this Agreement or any Ancillary Agreement by the Company does not, and the consummation of the transactions contemplated hereby and thereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under (i) any provision of the certificate of incorporation or bylaws, or other equivalent charter documents, as applicable, of the Company or any of its subsidiaries, or (ii) any Material Contract or any material permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any of its properties or assets, except, in the case of clause (ii) above, as set forth in Section 2.3 of the Company Disclosure Schedule. Except for (i) applicable requirements of the hearing (the "Fairness Hearing") to be held pursuant to Section 25142 of the California Corporate Securities Law of 1968, as amended (the "CSL"), (ii) the filing and recordation of the certificate of merger and the related certificate of incorporation of the Surviving Corporation in accordance with the requirements of Delaware Law, (iii) such filings as may be required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and any applicable foreign antitrust law, and (iv) if required pursuant to the provisions of Section 5.18, the filing of a Registration Statement on Form S-4, no notice to, filing with, and no permit, authorization, consent or approval of, any arbitrator, court, nation, government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial regulatory or administrative functions of, or pertaining to, government (a "Governmental Entity"), or any private third party is necessary for the consummation by the Company of the transactions contemplated by this Agreement.

Section 2.4 Financial Statements

The Company has previously provided Parent with its audited balance sheet as of December 31, 2001 (the "December 31, 2001 Balance Sheet") and its unaudited balance sheet as of June 30, 2002, and the related statements of results of operations and, with respect to the audited financial statements, statements of cash flows for the fiscal year and the period then ended, including, with respect to the audited financial statements, the notes thereto (the "Financial Statements"). The Financial Statements for the year ended December 31, 2001 have been audited by Deloitte & Touche LLP, the Company's independent accountants. The Financial Statements fairly present, in all respects, in accordance with United States generally accepted accounting principles ("U.S. GAAP") consistently applied, the financial position of the Company and its subsidiaries as of such dates and its results of operations and cash flows for such fiscal periods except, in the case of such unaudited statements, for normal recurring year end adjustments which adjustments will not be material, either individually or in the aggregate, and notes.

Section 2.5 Absence of Certain Changes

Except as and to the extent set forth in the Financial Statements or in Section 2.5 of the Company Disclosure Schedule, from December 31, 2001 (the "Balance Sheet Date") to the date of this Agreement the Company and its subsidiaries have not:

(a) suffered any Company Material Adverse Effect;

(b) incurred any liabilities or obligations (absolute, accrued, contingent or otherwise), except non-material items incurred in the ordinary

course of business and consistent with past practice, which do not exceed $50,000 in the aggregate;

(c) paid, discharged or satisfied any claims, liabilities or obligations (absolute, accrued, contingent or otherwise) other than the payment, discharge or satisfaction in the ordinary course of business and consistent with past practice of liabilities and obligations reflected or reserved against in the December 31, 2001 Balance Sheet or incurred in the ordinary course of business and consistent with past practice since the Balance Sheet Date;

(d) permitted or allowed any of their properties or assets (real, personal or mixed, tangible or intangible) to be subjected to any liens, except for liens for current taxes not yet due or liens the incurrence of which would not have a Company Material Adverse Effect;

(e) cancelled any debts or waived any claims or rights of substantial value;

(f) sold, transferred, or otherwise disposed of any of their material properties or assets (real, personal or mixed, tangible or intangible), except in the ordinary course of business, consistent with past practice;

(g) granted any increase in the compensation or benefits payable or to become payable to any director, officer, employee or consultant of the Company or its subsidiaries (including any such increase pursuant to any bonus, pension, profit sharing, incentive compensation or other plan or commitment), except, in the case of employees other than executive officers of the Company or its subsidiaries, for such increases in compensation or benefits made in the ordinary course of business, consistent with past practice;

(h) made any change in severance policy or practices;

(i) entered into any operating lease;

(j) made any capital expenditure or acquired any property, plant and equipment other than as set forth in Section 2.5(j) of the Company Disclosure Schedule;

(k) declared, paid or set aside for payment any dividend or other distribution in respect of their respective capital stock or redeemed, purchased or otherwise acquired, directly or indirectly, any shares of capital stock or other securities of the Company or its subsidiaries;

(l) made or changed any material election in respect of Taxes, adopted or changed any accounting method in respect of Taxes, entered into any closing agreement, settled

or compromised any claim or assessment in respect of Taxes, or consented to any extension or waiver of the statutory period of limitations applicable to any claim or assessment in respect of Taxes;

(m) made any change to its accounting methods, principles, policies, procedures or practices, except as may be required by U.S. GAAP;

(n) paid, loaned or advanced any amount to, or sold, transferred or leased any material properties or assets (real, personal or mixed, tangible or intangible) to, or entered into any agreement or arrangement with, any of their respective officers, directors or stockholders or any affiliate or associate of any of their officers, directors or stockholders except for directors' fees, and compensation to officers at rates not inconsistent with the Company's past practice; or

(o) agreed, whether in writing or otherwise, to take any action described in this Section 2.5.

Section 2.6 Absence of Undisclosed Liabilities

Except as and to the extent provided in the December 31, 2001 Balance Sheet, the Company did not have at the Balance Sheet Date any liabilities (whether contingent or absolute, direct or indirect, known or unknown to the Company or matured or unmatured or otherwise) that were not fully reflected or fully reserved against in the December 31, 2001 Balance Sheet or incurred other than in the ordinary course of business, consistent with past practice.

Section 2.7 Litigation

There is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any agency, court or tribunal, foreign or domestic, or, to the knowledge of the Company, threatened against the Company or its subsidiaries, any of their properties or any of their officers or directors (in their capacities as such). There is no judgment, decree or order against the Company or any of its subsidiaries or, to the knowledge of the

Company, any of their directors or officers (in their capacities as such), that could prevent, enjoin, or materially alter or delay any of the transactions contemplated by this Agreement, or that would reasonably be expected to have a Company Material Adverse Effect. There is no litigation that the Company or any of its subsidiaries has pending against other parties.

Section 2.8 Restrictions on Business Activities

There is no agreement, judgment, injunction, order or decree binding upon the Company or its subsidiaries which has or could reasonably be expected to have the effect of prohibiting or impairing any current business practice of the Company or its subsidiaries, any acquisition of property by the Company or its subsidiaries or the conduct of business by the Company or its subsidiaries as currently conducted.

Section 2.9 Governmental Authorization

The Company and its subsidiaries have obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental

Entity (i) pursuant to which the Company or any of its subsidiaries currently operates or holds any interest in any of its properties or (ii) that is required for the operation of the business of the Company or any of its subsidiaries or the holding of any such interest ((i) and (ii) are herein collectively called "Company Authorizations"), and all of such Company Authorizations are in full force and effect, except where the failure to obtain or have any such Company Authorizations would not reasonably be expected to have a Company Material Adverse Effect.

Section 2.10 [Intentionally omitted]

Section 2.11 Title to Property

The Company and each of its subsidiaries has good and marketable title to all of its properties, interests in properties and assets, real and personal, reflected in the December 31, 2001 Balance Sheet or acquired after the Balance Sheet Date (except properties, interests in properties and assets sold or otherwise disposed of since the Balance Sheet Date in the ordinary course of business, consistent with past practice), or with respect to leased properties and assets, valid leasehold interests in, free and clear of all mortgages, liens, pledges, charges or encumbrances of any kind or character, except (i) liens for current taxes not yet due and payable, (ii) such imperfections of title, liens and easements as do not and will not materially detract from or interfere with the use or value of the properties subject thereto or affected thereby, or otherwise materially impair business operations involving such properties, (iii) liens securing debt which are reflected on the December 31, 2001 Balance Sheet, and (iv) any security interests disclosed on Section 2.11 of the Company Disclosure Schedule. The property and equipment of the Company and each of its subsidiaries that are used in the operations of business are in good operating condition and repair, subject to normal wear and tear. All properties used in the operations of the Company as of the Balance Sheet Date are accounted for in the December 31, 2001 Balance Sheet to the extent U.S. GAAP requires the same to be reflected.

Section 2.12 Technology and Intellectual Property

(a) Definitions. The following terms shall have the meanings set forth below.

"Company Intellectual Property" means all Intellectual Property that the Company or any of its subsidiaries either owns or has a right to use.

"Company Technology" means all Technology owned by the Company or any of its subsidiaries or used in the conduct of the business of the Company or any of its subsidiaries as currently conducted or contemplated to be conducted.

"Computer Software" means all computer programs (whether in source code or object code form and including, without limitation, any and all software implementations of algorithms, models and methodologies), and all data bases, compilations and documentation (including, without limitation, user, operator, and training manuals) related to the foregoing.

"Copyrights" means all rights in U.S. and foreign copyrights (whether registered or unregistered), including all rights to apply for, applications to register, and registrations of any of the foregoing.

"Intellectual Property" means all Copyrights, Patents, Trade Secrets, Trademarks and Internet domain names.

"Inventor-Developed Intellectual Property" has the meaning set forth in Section 2.12(n).

"Inventor-Developed Technology" has the meaning set forth in Section 2.12(n).

"Inventors" means all parties (whether employees, consultants or contractors) that have been engaged in the creation of Intellectual Property or Technology as part of their duties for, during their work with or relating to, or otherwise using any of the equipment, materials or facilities of, the Company or any of its subsidiaries.

"License Agreements" has the meaning set forth in Section 2.12(e).

"Patents" means all rights in U.S. and foreign patents (including, without limitation, provisionals, utility patents, divisionals, continuations, continuations-in-part, renewals, reissues, reexaminations, extensions), including all rights to apply for, applications for, and any issuances or registrations of the foregoing.

"Technology" means all processes, formulae, algorithms, data, models, plans, methodologies, theories, ideas, techniques, discoveries, disclosures, inventions, Computer Software and any other tangible or intangible form of technology, information or know-how.

"Trademarks" means all trademarks, service marks, trade names, designs, logos, slogans, and general intangibles of like nature, together with all goodwill, and all rights to apply for or register, applications for, and registrations of any of the foregoing.

"Trade Secrets" means all rights in trade secrets and other proprietary or confidential information, in any format, whether tangible or intangible. Trade Secrets also include all rights associated with non-public or unregistered Patents and Copyrights.

(b) Section 2.12(b) of the Company Disclosure Schedule sets forth a true and complete list of all Company Intellectual Property (excluding Trade Secrets and non-material unregistered copyrights), specifying whether the Company owns or licenses such Company Intellectual Property. With respect to the Company Intellectual Property owned by the Company or any of its subsidiaries: (i) Section 2.12(b) of the Company Disclosure Schedule also sets forth a true and complete list of all (1) patents and patent applications, (2) copyright registrations and copyright applications, (3) trademark registrations and trademark applications, (4) Internet domain name registrations and applications for domain name registrations, and (5) other filings and formal actions made or taken by the Company or any of its subsidiaries pursuant to federal, state, local and foreign laws to protect its interests in the Company Intellectual Property; and (ii) the Company or its subsidiaries is listed in the records of the appropriate U.S., state or foreign agency as the sole owner of record for each such patent, copyright, trademark or Internet domain name.

(c) With respect to any patents and patent applications set forth in Section 2.12(b) of the Company Disclosure Schedule: (i) each has been prosecuted in material compliance with all

applicable rules, policies and procedures of the United States Patent and Trademark Office or applicable foreign patent agencies; and (ii) neither the Company, any of its subsidiaries, nor the Inventors are aware of any material prior art relevant thereto that could render the claims unpatentable, invalid or unenforceable.

(d) [Intentionally omitted]

(e) Section 2.12(e) of the Company Disclosure Schedule sets forth a true and complete list of all agreements (including, without limitation, license agreements, development agreements, distribution agreements, settlement agreements, consent to use agreements and covenants not to sue, other than licenses for personal computer software that is generally available on nondiscriminatory pricing terms and has an individual acquisition cost of $500 or less per software package) to which the Company or any of its subsidiaries is a party or otherwise bound, granting or obtaining any right to use or exploit or practice any rights in any Company Intellectual Property or any Company Technology or restricting the Company's or any of its subsidiaries' rights to use any Company Intellectual Property or Company Technology (all of the foregoing being collectively known as the "License Agreements"). Each License Agreement is valid and binding on all parties thereto and enforceable in accordance with its terms, and there exists no event or condition that does or will result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default by any party under, such License Agreement. Neither the Company nor any of its subsidiaries has licensed or sublicensed its rights in any Company Intellectual Property or Company Technology other than pursuant to the License Agreements. None of the License

Agreements grants any third party exclusive rights, or sublicensing rights, to or under any Company Intellectual Property or Company Technology.

(f) Except as disclosed in Section 2.12(f) of the Company Disclosure Schedule, to the knowledge of the Company and each of its subsidiaries, the Company or its subsidiaries own all right, title and interest in and to, or has a valid and unrestricted right to exploit, free and clear of all mortgages, liens, pledges, charges or encumbrances of any kind or character, all Intellectual Property used in or necessary for the conduct of the business of the Company and any of its subsidiaries as currently conducted or contemplated to be conducted, and all Intellectual Property required for use of the Company Technology. The Company and each of its subsidiaries have secured valid and binding written assignments from all employees, consultants and other third parties who contributed to the creation or development of Company Intellectual Property.

(g) The Company Intellectual Property is subsisting, in full force and effect, has not been cancelled, expired or abandoned. To the knowledge of the Company, each of its subsidiaries and the Inventors, the Company Intellectual Property is valid and enforceable

(h) The Company Technology was developed without infringing any copyright, or misappropriating any Trade Secret, of any third party. All use and disclosure of third party Trade Secrets has been pursuant to the terms of a written agreement between Company or its subsidiaries and the owner of such Trade Secrets, or is otherwise lawful.

(i) The use of the Company Technology and the conduct of the business of the Company and each of its subsidiaries (including, without limitation, the provision of services and the manufacturing, marketing, licensing and sale of goods), as currently conducted and as

contemplated to be conducted, does not and will not infringe any copyright or misappropriate any Trade Secret of any third party. To the knowledge of the Company and each of its subsidiaries, the use of the Company Technology and the conduct of the business of the Company and each of its subsidiaries (including, without limitation, the provision of services and the manufacturing, marketing, licensing and sale of goods), as currently conducted and as contemplated to be conducted, does not and will not infringe any patent of any third party.

(j) Except as set forth in Section 2.12(j) of the Company Disclosure Schedule, to the knowledge of the Company, each of its subsidiaries and the Inventors, no third party is misappropriating, infringing, diluting or violating any Company Intellectual Property. Neither the Company, any of its subsidiaries, nor the Inventors have brought any claims, suits, arbitrations or other adversarial proceedings related to the foregoing against any third party. Neither Company, any of its subsidiaries, nor the Inventors have entered into any agreement to indemnify any third party against any charge of misappropriation, infringement, dilution or violation of any Company Intellectual Property.

(k) Except as set forth in Section 2.12(k) of the Company Disclosure Schedule, there is no pending or threatened claim, suit, arbitration or other adversarial proceeding before any court, agency, arbitral tribunal, or registration authority in any jurisdiction: (i) involving the Company Intellectual Property or Company Technology; (ii) alleging that the use of the Company Technology or that the activities or the conduct of the business of the Company or any of its subsidiaries does or will infringe any Intellectual Property of any third party; or (iii) challenging the ownership, use, validity, enforceability or registrability of any Company Intellectual Property. Neither the Company nor any of its subsidiaries have sought nor received any opinions of counsel related to any of the foregoing.

(l) Except as set forth in Section 2.12(l) of the Company Disclosure Schedule, there are no settlements, forebearances to sue, consents, judgments, or orders or similar obligations, other than the License Agreements, that do or may: (i) restrict the Company's or any of its subsidiaries' rights to use any Company Intellectual Property or Company Technology; (ii) restrict the use of the Company Technology or the conduct of the business of the Company or any of its subsidiaries in order to accommodate a third party's Intellectual Property rights; or (iii) permit third parties to use any Company Intellectual Property or Company Technology.

(m) [Intentionally omitted]

(n) Except as set forth in Section 2.12(n) of the Company Disclosure Schedule, all right, title and interest in and to all material Intellectual Property developed by the Inventors related to the past, actual or potential business of the Company and each of its subsidiaries (the "Inventor-Developed Intellectual Property") and all material Technology developed by the Inventors related to the past, actual or potential business of the Company and each of its subsidiaries (the "Inventor-Developed Technology")

have been transferred to the Company or its subsidiaries by the Inventors, and such Inventor-Developed Intellectual Property and Inventor-Developed Technology are now, respectively, part of the Company Intellectual Property and Company Technology.

(o) Except as set forth on Section 2.12(e) of the Company Disclosure Schedule, no third party, including but not limited to any former employer of the Inventors, has any claim to

any right, title or interest in and to either the Inventor-Developed Intellectual Property or the Inventor-Developed Technology.

(p) The Inventors independently developed the Inventor-Developed Technology without infringing any copyright or misappropriating any Trade Secret of any third party. No former employer of any Inventor has a reasonable basis for bringing any claim, suit or action for patent infringement, copyright infringement, trade secret misappropriation, or under a theory of inevitable disclosure.

(q) The Inventors have not made any filings for or otherwise taken any steps to secure or acquire any Intellectual Property right, related to any Inventor-Developed Intellectual Property or Inventor-Developed Technology, that has not already been transferred to the Company or its subsidiaries.

(r) The Inventors have executed valid and binding written nondisclosure agreements and invention and intellectual property assignment agreements, consistent with this Section 2.12, with the Company or its subsidiaries effective as of the date each Inventor became an employee of or otherwise associated with the Company or any of its subsidiaries.

(s) All employees of Company or its subsidiaries, and all other parties having access to the Trade Secrets of the Company or any of its subsidiaries, have executed written nondisclosure agreements, consistent with this Section 2.12.

(t) No Trade Secret of the Company or any of its subsidiaries has been disclosed or authorized to be disclosed to any third party other than pursuant to a written nondisclosure agreement consistent with this Section 2.12, and no party to any such nondisclosure agreement is in breach or default thereof. Without limiting the generality of foregoing, the Company and each of its subsidiaries has taken reasonable measures, consistent with customary industry practice, to protect and preserve its Trade Secrets.

(u) No current or former Inventor, partner, director, officer or employee of the Company or any of its subsidiaries (or any of their respective predecessors in interest) will, after giving effect to the transactions contemplated by this Agreement, own or retain any rights in or to or under any of the Company Intellectual Property or Company Technology.

(v) The execution of, the delivery of, the consummation of the transactions contemplated by, and the performance of the Company's obligations under this Agreement and the Ancillary Agreements will not result in any loss or impairment of the Company's or any of its subsidiaries' rights to own or use any of the Company Intellectual Property or the Company Technology, or of any agreement to which the Company or any of its subsidiaries is a party.

Without limiting any other remedy available to Parent, to the extent necessary to perfect title in any of the Company Intellectual Property, or otherwise effect any provision of or remedy any breach of this Section 2.12, the Company (on behalf of itself and each of its subsidiaries) hereby agrees to, and will use all reasonable efforts to cause the Inventors to, perform any act and execute any document as may be requested by Parent.

Section 2.13 Environmental Matters

(a) The Company and its subsidiaries are in full compliance with all Environmental Laws, which compliance includes, but is not limited to, the possession by the Company or its subsidiaries of all material permits and other governmental authorizations required under applicable Environmental Laws, and compliance in all respects with the terms and conditions thereof. The Company and its subsidiaries have not received any communication, whether from a governmental authority, citizens group, employee or otherwise, that alleges that the Company or any of its subsidiaries is not in full compliance, and, to the knowledge of the Company, there are no material circumstances that may prevent or interfere with such compliance in the future. All of the permits the Company and its subsidiaries have pursuant to Environmental Laws are listed on Section 2.13 (a) of the Company Disclosure Schedule.

(b) There are no Environmental Claims pending, alleged or, to the

knowledge of the Company, threatened against the Company, any of its subsidiaries, or, to the knowledge of the Company, against any person or entity whose liability for any Environmental Claim the Company or any of its subsidiaries have retained or assumed either contractually or by operation of law.

(c) There are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, the release, emission, discharge, presence or disposal of any Material of Environmental Concern by or attributable to the Company or any of its subsidiaries, that would reasonably be expected to form the basis of any Environmental Claim against the Company, any of its subsidiaries, or, to the knowledge of the Company, against any person or entity whose liability for any Environmental Claim the Company or any of its subsidiaries have retained or assumed either contractually or by operation of law.

(d) Without in any way limiting the generality of the foregoing, (i) all on-site and off-site locations where the Company or any of its subsidiaries have stored Materials of Environmental Concern are identified in Section 2.13(d)(i) of the Company Disclosure Schedule, (ii) any underground storage tanks, and the capacity and contents of such tanks, if known to the Company, located on property owned or leased by the Company or any of is subsidiaries are identified in Section 2.13(d)(ii) of the Company Disclosure Schedule, (iii) except as set forth in Section 2.13(d)(iii) of the Company Disclosure Schedule, to the Company's knowledge there is no asbestos contained in or forming part of any building, building component, structure or office space owned or leased by the Company or any of its subsidiaries, and (iv) to the Company's knowledge no polychlorinated biphenyls (PCB's) or PCB-containing items are used or stored at any property owned, leased or operated by the Company or any of its subsidiaries.

(e) The Company has provided to Parent all assessments, reports, data, results of investigations or audits, and other information that is in the possession of the Company or any of its subsidiaries regarding environmental matters pertaining to or the environmental condition of the business of the Company and its subsidiaries, or the compliance (or noncompliance) by the Company or any of its subsidiaries with any Environmental Laws.

For purposes of this Agreement:

(1) "Environmental Claim" means any material claim, action, cause of action, investigation or notice (written or oral) by any person or entity alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from (a) the presence, or release into the environment, of any Material of Environmental Concern at any location, whether or not owned or operated by the Company or its subsidiaries or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

(2) "Environmental Laws" means all Federal, state, local and foreign laws and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata), including, without limitation, laws and regulations relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern.

(3) "Materials of Environmental Concern" means chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum and petroleum products, but excluding materials commonly employed or wastes commonly generated in office operations and/or janitorial operations to the extent that such materials are in an amount typically generated in such office operations and/or janitorial operations.

Section 2.14 Taxes

(a) The Company and its subsidiaries have (i) properly completed and timely filed all Tax Returns required to be filed by them on or before the Closing Date and all such Tax Returns are true, complete and correct and (ii) paid, or where payment is not yet due, have provided adequate accruals in accordance with U.S. GAAP in the Financial Statements for all Taxes due with respect to any period ending on or before the Closing Date. The Company and each of its subsidiaries have no material liability for unpaid Taxes accruing after the date of the latest Financial Statements. There is (i) no material claim for Taxes that is a lien against the property of the Company or any of its subsidiaries or that is being asserted against the Company or any of its

subsidiaries other than liens for Taxes not yet due and payable and for which there are adequate accruals in accordance with U.S. GAAP, (ii) no audit of any Tax Return of the Company or any of its subsidiaries being conducted by a Tax Authority, and (iii) no extension or waiver of the statute of limitations on the assessment of any Taxes or power of attorney granted by the Company or any of its subsidiaries and currently in effect. Neither the Company nor any of its subsidiaries has filed nor will file any consent to have the provisions of section 341(f)(2) of the Code (or comparable provisions of any foreign or state Tax laws) apply to the Company or any of its subsidiaries. Neither the Company nor any of its subsidiaries is a party to any Tax sharing, Tax allocation, Tax indemnification or similar agreement nor does the Company or any of its subsidiaries have any liability or potential liability to another party under any such agreement. The Company has never been a member of a consolidated, combined or unitary group of which the Company was not the ultimate parent corporation. The Company has never

been a "United States real property holding corporation" within the meaning of Section 897 of the Code. The Company and its subsidiaries have not had any income or gain reportable for a period ending after the Closing Date but attributable to a transaction occurring in, or a change in tax accounting method made for, a taxable period ending on or prior to the Closing Date which resulted in a deferred reporting of income or gain, for Tax purposes, from such transaction or from such change in tax accounting method. No issues have been raised in writing by any Tax Authority in connection with any Tax Returns of the Company or its subsidiaries. All deficiencies asserted or assessments made as a result of any examination by a Taxing Authority have been paid in full.

(b) For purposes of this Agreement, the following terms have the following meanings: "Tax" (and, with correlative meaning, "Taxes" and "Taxable") means any United States federal, state, local and foreign taxes, and other assessments of a similar nature (whether imposed directly or through withholding), including any interest, additions to tax, or penalties applicable thereto. As used herein, "Tax Return" means any United States federal, state, local and foreign tax returns, declarations, statements, reports, schedules, forms and information returns and any amendment thereto.

Section 2.15 Employee Benefit Plans

(a) Section 2.15 of the Company Disclosure Schedule lists, with respect to the Company and any trade or business (whether or not incorporated) which is treated as a single employer with the Company (an "ERISA Affiliate") within the meaning of Section 414(b), (c), (m) or (o) of the Code or Section 4001(b) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and any leased employee as defined in Section 414(n) of the Code, (i) all employee benefit plans (as defined in Section 3(3) of ERISA), (ii) each loan to any employee, officer, director or consultant and any stock option, stock purchase, phantom stock, stock appreciation right, supplemental retirement, severance, termination, change in control, sabbatical, medical, dental, vision care, disability, employee relocation, cafeteria benefit (Code Section 125) or dependent care (Code Section 129), life insurance or accident insurance plans, programs or arrangements, (iii) all bonus, pension, profit sharing, savings, deferred compensation or incentive plans, programs or arrangements, (iv) other fringe or employee benefit plans, programs or arrangements, and (v) any current or former employment, executive compensation, change in control, termination, severance or consulting agreements, written or otherwise, for the benefit of, or relating to, any present or former employee, consultant or director of the Company (together, the "Company Employee Plans").

(b) The Company has furnished or made available to Parent a copy of each of the Company Employee Plans and related material plan documents (including trust documents, insurance policies or contracts, employee booklets, summary plan descriptions, summaries of material modifications and other authorizing documents, and any material employee or governmental communications relating thereto) and has, with respect to each Company Employee Plan that is subject to ERISA reporting requirements, provided copies of the Form 5500 reports required to be filed for the last three (3) plan years. Any Company Employee Plan intended to be qualified under Section 401(a) of the Code has either obtained from the Internal Revenue Service (the "IRS") a favorable determination letter as to its qualified status under the Code, including all amendments to the Code effected by applicable law, or has applied to the IRS for such a determination letter (or has available sufficient time to make such

application) prior to the expiration of the requisite period under applicable Treasury Regulations or IRS pronouncements in which to apply for such determination letter and to make any amendments necessary to obtain a favorable determination or has been established under a standardized prototype plan for which an IRS opinion letter has been obtained by the plan sponsor and is valid as to the adopting employer. The Company has also furnished or made available to Parent the most recent IRS determination, notification, advisory, or opinion

letter issued with respect to each such Company Employee Plan, and, to the Company's knowledge, nothing has occurred since the issuance of each such letter that could reasonably be expected to cause the loss of the tax-qualified status of any Company Employee Plan subject to Section 401(a) of the Code.

(c) None of the Company Employee Plans promises or provides retiree medical or other retiree welfare benefits to any person, except as required by applicable law. There has been no "prohibited transaction," as such term is defined in Section 406 of ERISA and Section 4975 of the Code, with respect to any Company Employee Plan. Each Company Employee Plan has been administered in accordance with its terms and in material compliance with the requirements prescribed by any and all statutes, rules and regulations (including ERISA and the Code), and the Company and each of its ERISA Affiliates have performed all obligations required to be performed by them under, are not in any respect in default under or violation of, and have no knowledge of any default or violation by any other party to, any of the Company Employee Plans. Neither the Company nor any of its ERISA Affiliates is subject to any liability or penalty under Sections 4976 through 4980 of the Code or Title I of ERISA with respect to any of the Company Employee Plans. All contributions required to be made by the Company or any of its ERISA Affiliates to any Company Employee Plan have been made on or before their due dates and a reasonable amount has been accrued for contributions to each Company Employee Plan for the current plan years. With respect to each Company Employee Plan, no "reportable event" within the meaning of Section 4043 of ERISA (excluding any such event for which the thirty (30) day notice requirement has been waived under the regulations to Section 4043 of ERISA) nor any event described in Section 4062, 4063 or 4041 of ERISA has occurred. Each Company Employee Plan can be amended, terminated or otherwise discontinued after the Closing Date in accordance with its terms, without material liability to Parent (other than ordinary administrative expenses typically incurred in a termination event). With respect to each Company Employee Plan subject to ERISA as either an employee pension plan within the meaning of Section 3(2) of ERISA or an employee welfare benefit plan within the meaning of Section 3(1) of ERISA, the Company has prepared in good faith and timely filed all requisite governmental reports (which, to the Company's knowledge, were true and correct as of the date filed) and has properly and timely filed and distributed or posted all notices and reports to employees required to be filed, distributed or posted with respect to each such Company Employee Plan. No suit, administrative proceeding, action or other litigation has been brought, or to the knowledge of the Company is threatened, against or with respect to any such Company Employee Plan, including any audit or inquiry by the IRS or United States Department of Labor other than requests for payments in the ordinary course or requests for qualified domestic relations orders.

(d) With respect to each Company Employee Plan, the Company has complied, with (i) the applicable health care continuation and notice provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") and the regulations (including proposed regulations) thereunder, (ii) the applicable requirements of the Family

Medical and Leave Act of 1993 and the regulations thereunder and (iii) the applicable requirements of the Health Insurance Portability and Accountability Act of 1996 and the regulations (including proposed regulations) thereunder.

(e) Neither the execution and delivery of this Agreement or the Ancillary Agreements nor the transactions contemplated hereby or thereby will (i) entitle any current or former employee, director, consultant or other service provider of the Company to any payment or benefits (including, without limitation, severance, unemployment compensation, change in control, golden parachute, bonus or otherwise), except as expressly provided in this Agreement, (ii) materially increase any benefits otherwise payable by the Company or (iii) except as disclosed in Section 2.15 of the Company Disclosure Schedule, accelerate the time of payment, vesting or exercisability of Company Options or any benefit (other than as required under Section 411(d)(3) of the Code), or increase the amount of compensation due any such employee, director or service provider.

(f) There has been no amendment to, written interpretation or announcement (whether or not written) by the Company or any ERISA Affiliates relating to, or change in participation or coverage under, any Company Employee Plan that would materially increase the expense of maintaining such Company Employee Plan above the level of expense incurred with respect to that Plan for the most recent fiscal year included in the Financial Statements.

(g) Neither the Company, nor any ERISA Affiliate of the Company maintains, sponsors, participates in, contributes to, or is required to contribute to, nor have any of the foregoing ever maintained, established, sponsored, participated in, or contributed to, or been required to contribute to, any pension plan (within the meaning of Section 3(2) of ERISA) that is subject to Part 3 of Subtitle B of Title I of ERISA, Title IV of ERISA, or Section 412 of the Code.

(h) Neither the Company nor any of its ERISA Affiliates is a party

to, or has made any contribution to or otherwise incurred any obligation to contribute to, any "multi-employer plan" as defined in Section 3(37) or 4001(a)(3) of ERISA. The Company is not obligated to make any "parachute payments" as such term is defined in Section 280G of the Code, and is not a party to any agreement that may result in any parachute payments, in either case, that but for Section 280G of the Code would be deductible. The Company is not obligated to make reimbursement or gross-up payments to any person in respect to "excess parachute payments" as such term is defined in Section 280G of the Code.

(i) With respect to each Company Employee Plan that is subject to the laws or applicable customs or rules of relevant jurisdictions other than the United States (each, a "Foreign Plan"), except as set forth in Section 2.15 of the Company Disclosure Schedule: (i) each Foreign Plan is in compliance in all material respects with the applicable provisions of the laws and regulations regarding employee benefits, mandatory contributions and retirement plans of each jurisdiction in which each such Foreign Plan is maintained, to the extent those laws are applicable to such Foreign Plan; (ii) each Foreign Plan has, to the knowledge of the Company and any Company subsidiary, been administered at all times and in all material respects in accordance with its terms; (iii) to the knowledge of the Company and any Company subsidiary, there are no pending investigations by any governmental body involving any Foreign Plan, and no pending claims (except for claims for benefits payable in the normal operation of the Foreign

Plans), suits or proceedings against any Foreign Plan or asserting any rights or claims to benefits under any Foreign Plan; (iv) each Foreign Plan required to be registered has been registered and has been maintained in good standing with applicable regulatory authorities; and (v) the transactions contemplated by this Agreement will not, by themselves or in conjunction with any other agreements, create or otherwise result in any material liability, accelerated payment or any enhanced benefits with respect to any Foreign Plan.

Section 2.16 [Intentionally omitted]

Section 2.17 Labor and Employee Matters

(a) Each of the Company and its subsidiaries is in compliance in all material respects with all currently applicable laws and regulations respecting employment, discrimination in employment, terms and conditions of employment, wages, hours and occupational safety and health and employment practices, and is not engaged in any unfair labor practice, as defined in the National Labor Relations Act or other applicable law. Each of the Company and its subsidiaries has in all material respects withheld all amounts required by law or by agreement to be withheld from the wages, salaries, and other payments to employees; and is not liable for any material arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing. Neither the Company nor any of its subsidiaries is liable for any material payment to any trust or other fund or to any governmental or administrative authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for employees (other than routine payments to be made in the ordinary course of business and consistent with past practice). There are no pending claims against the Company or any of its subsidiaries under any workers compensation plan or policy or for long term disability. There are no controversies pending or, to the knowledge of the Company, threatened, between the Company and its subsidiaries, on the one hand, and any of its employees, on the other hand, which controversies have or could reasonably be expected to result in an action, suit, proceeding, claim, arbitration or investigation before any agency, court or tribunal, foreign or domestic. To the Company's knowledge, no federal, state, local or foreign agency responsible for the enforcement of labor or employment laws intends to conduct an investigation with respect to the Company or any of its subsidiaries, and no such investigation is in progress. Neither the Company nor any of its subsidiaries is a party to any collective bargaining agreement or similar agreement with any labor organization, or work rules or practices agreed to with any labor organization or employee association applicable to employees of the Company or any of its subsidiaries. None of the Company or its subsidiaries' employees are represented by any labor organization, nor does the Company know of any activities or proceedings of any labor union to organize any such employees. No employees of the Company or any of its subsidiaries are in violation of any term of any employment contract, invention assignment agreement, patent disclosure agreement, non-competition agreement, non-solicitation agreement, or any restrictive covenant to a former employer relating to the right of any such employee to be employed by the Company or any of its subsidiaries because of the nature of the business conducted by the Company or to the use of trade secrets or proprietary information of others. No key employees or officers of the Company or any of its subsidiaries have given notice to the Company, nor is the Company otherwise aware, that any such key employee or officer intends to terminate his or her employment with the Company or any of its subsidiaries.

(b) Since the Company's formation (i) the Company and its subsidiaries have not effectuated a "plant closing" (as defined in the WARN Act) affecting any site of employment or one or more facilities or operating units within any site of employment or facility of the Company or its subsidiaries, (ii) there has not occurred a "mass layoff" (as defined in the Worker Adjustment and Retraining Notification Act (the "WARN Act")) affecting any site of employment or facility of the Company or its subsidiaries, (iii) the Company and its subsidiaries have not been affected by any transaction or engaged in layoffs or employment terminations sufficient in number to trigger application of any similar state, local or foreign law or regulation similar to the WARN Act and (iv) none the Company or its subsidiaries' employees has suffered an "employment loss" (as defined in the WARN Act) during the six (6) month period prior to the date of this Agreement.

Section 2.18 Interested Party Transactions

No director, officer, employee, consultant, stockholder, agent or affiliate of the Company or its subsidiaries (i) has had any interest in any assets, property or rights (whether real or personal, tangible or intangible), used by the Company or any such subsidiaries in the conduct of its business, or (ii) has engaged in any transaction with or is party to any agreement with the Company or any of its subsidiaries. Section 2.18 of the Company Disclosure Schedule lists the amounts payable to each officer or employee of the Company or any of its subsidiaries pursuant to any agreement with any such officer or employee to make payments conditioned upon the execution of this Agreement or the Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby.

Section 2.19 Insurance

The Company and each of its subsidiaries has policies of insurance and bonds of the type and in amounts customarily carried by persons conducting businesses or owning assets similar to those of the Company and each of its subsidiaries. Section 2.19 of the Company Disclosure Schedule contains a complete list of the policies and contracts of insurance maintained by the Company and each of its subsidiaries. There is no material claim pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable to date under all such policies and bonds have been paid and the Company and each of its subsidiaries is otherwise in compliance in all material respects with the terms of such policies and bonds. The Company has no knowledge of any threatened termination of, or material premium increase with respect to, any of such policies.

Section 2.20 Compliance With Laws

Each of the Company and its subsidiaries has complied with, is not in violation of, and has not received any notices of violation with respect to, any federal, state, local or foreign statute, law or regulation with respect to the conduct of its business, or the ownership or operation of its business, except for such violations or failures to comply as could not be reasonably expected to have a Company Material Adverse Effect.

Section 2.21 Minute Books

The minute books of the Company and its subsidiaries made available to Parent contain a complete and accurate summary in all material respects of all meetings of directors and stockholders or actions by written consent since the time of incorporation of the Company and its subsidiaries through the date of this Agreement, and reflect all transactions referred to in such minutes accurately in all material respects.

Section 2.22 Complete Copies of Materials

The Company has delivered or made available true and complete copies of (a) all material permits, orders, and consents issued by any regulatory agency with respect to the Company, or any securities of the Company, and all applications for such permits, orders, and consents, (b) all Material Contracts, (c) agreements relating to Intellectual Property and (d) the stock transfer books of the Company setting forth all transfers of any capital stock, in each case, as currently in effect.

Section 2.23 Stockholder Agreements; Irrevocable Proxies

Holders of more than (i) a majority of the outstanding shares of Company Common Stock and (ii) a majority of the outstanding shares of Company Preferred Stock, have agreed in writing to vote for approval of the Merger pursuant to irrevocable proxies attached as exhibits to the Stockholder Agreements.

Section 2.24 Vote Required

The affirmative vote of the (x) holders of a majority of the outstanding shares of Company Common Stock and Company Preferred Stock (voting together as a class) and (y) a majority of the outstanding shares of the Company Preferred Stock (voting as a separate class) are the only votes of the holders of any of the Company's capital stock necessary to approve this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby.

Section 2.25 Brokers' and Finders' Fees

Except as disclosed in Section 2.25 of the Company Disclosure Schedule, the Company has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

Section 2.26 Board Approval

The Company Board has (i) approved this Agreement, the Ancillary Agreements and the Merger, (ii) determined that the transactions contemplated herein and therein are advisable and in the best interests of the stockholders of the Company and on terms that are fair to such stockholders and (iii) recommended that the stockholders of the Company approve the Merger.

Section 2.27 Customers and Suppliers

No customer which individually accounted for more than one percent (1%) of the Company's gross revenues during the twelve (12) month period preceding the date hereof, and no supplier of the Company or its subsidiaries, has canceled or otherwise terminated, or made any written threat to the Company or its subsidiaries to cancel or otherwise terminate its relationship with the Company or its subsidiaries, or has decreased materially its services or supplies to the Company or its subsidiaries in the case of any such supplier, or its usage of the services or products of the Company or its subsidiaries in the case of such customer, and to the Company's knowledge, no such supplier or customer intends to cancel or otherwise terminate its relationship with the Company or its subsidiaries or to decrease materially its services or supplies to the Company or its subsidiaries or its usage of the services or products of the Company or its subsidiaries, as the case may be. Neither the Company nor any of its subsidiaries has breached, so as to provide a benefit to the Company and any such subsidiary that was not intended by the parties, any agreement with, or engaged in any fraudulent conduct with respect to, any customer or supplier of the Company or any of its subsidiaries.

Section 2.28 Material Contracts

Except for the contracts and agreements described in Section 2.28 of the Company Disclosure Schedule (collectively, the "Material Contracts"), neither the Company nor any of its subsidiaries is a party to or bound by any material contract, including without limitation:

(a) any distributor, sales, advertising, agency or manufacturer's representative contract;

(b) any continuing contract for the purchase of materials, supplies, equipment or services involving in the case of any such contract more than $50,000 over the life of the contract;

(c) any contract that expires or may be renewed at the option of any person other than the Company so as to expire more than one (1) year after the date of this Agreement;

(d) any trust indenture, mortgage, promissory note, loan agreement or other contract for the borrowing of money, any currency exchange, commodities or other hedging arrangement or any leasing transaction of the type required to be capitalized in accordance with U.S. GAAP;

(e) any contract for capital expenditures other than as set forth in Section 2.28(e) of the Company Disclosure Schedule;

(f) any contract limiting the freedom of the Company or any of its subsidiaries to engage in any line of business or to compete with any other "person" as that term is defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or, other than those entered into in the ordinary course of business, consistent with past practice, any confidentiality, secrecy or non-disclosure contract;

(g) any material contract pursuant to which the Company or any of its subsidiaries is a lessor of any machinery, equipment, motor vehicles, office

furniture, fixtures or other personal property;

(h) any contract with any affiliate of the Company or any of its subsidiaries; or

(i) any agreement of guarantee, support, indemnification, assumption or endorsement of, or any similar commitment with respect to, the obligations, liabilities (whether accrued, absolute, contingent or otherwise) or indebtedness of any other person.

Section 2.29 No Breach of Material Contracts

All Material Contracts are in written form. Each of the Company and its subsidiaries has in all material respects performed the obligations required to be performed by it and is entitled to all benefits under, and to its knowledge, is not alleged to be in default in respect of, any Material Contract. Each of the Material Contracts is in full force and effect, and there exists no default or event of default or event, occurrence, condition or act, with respect to the Company or any of its subsidiaries or, to the knowledge of the Company, with respect to the other contracting party, which, with the giving of notice, the lapse of time or the happening of any other event or conditions, would reasonably be expected to become a default or event of default under the terms of any Material Contract. True, correct and complete copies of all Material Contracts have been delivered to Parent.

Section 2.30 Third Party Consents

Section 2.30 of the Company Disclosure Schedule lists all contracts that require a novation or consent to assignment, as the case may be, prior to the Closing Date, so that Parent shall be made a party in place of the Company (or any of its subsidiaries) or an assignee.

Section 2.31 Material Third Party Consents

Section 2.31 of the Company Disclosure Schedule includes every contract which, if no novation occurs to make Parent a party thereto or if no consent to assignment is obtained, would have a material adverse effect on Parent's ability to operate the business of the Company and its subsidiaries in the same manner as the business was operated by the Company and its subsidiaries prior to the Closing Date.

Section 2.32 Product Releases

The Company has provided Parent a schedule of proposed product releases, which schedule is attached as Section 2.32 of the Company Disclosure Schedule. The Company has a good faith reasonable belief that it can achieve the release of products on the schedule described in Section 2.32 of the Company Disclosure Schedule and is not currently aware of any change in its circumstances or other fact that has occurred that would cause it to believe that it will be unable to meet such release schedule.

Section 2.33 [Intentionally omitted]

Section 2.34 [Intentionally omitted]

Section 2.35 State Takeover Statutes

Section 203 of Delaware Law is inapplicable to the Merger and the other transactions contemplated by this Agreement or the Ancillary Agreements. No "fair price," "control share acquisition" or other similar statute of any state applies to or purports to apply to the Merger or the other transactions contemplated by this Agreement or the Ancillary Agreements.

Section 2.36 Accounts Receivable

The accounts and notes receivable of the Company and its subsidiaries reflected on the Financial Statements, and all accounts and notes receivable arising subsequent to the date of such Financial Statements, (a) arose from bona fide sales transactions in the ordinary course of business, consistent with past practice, and are payable on ordinary trade terms, (b) are legal, valid and binding obligations of the respective debtors enforceable in accordance with their respective terms, except as enforceability may be limited by the effect, if any, of (i) any applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally, (ii) general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity, and (iii) the enforceability of provisions requiring indemnification, (c) are not subject to any valid set-off or counterclaim in an amount that would be material and (d) do not represent obligations for goods sold on consignment, on approval or on a sale-or-return basis or subject to any other repurchase or return arrangement.

Section 2.37 Inventory

All inventory of the Company and its subsidiaries reflected on the December 31, 2001 Balance Sheet consisted, and all such inventory acquired since December 31, 2001 consists, of a quality and quantity usable and salable in the ordinary course of business. Except as disclosed in the notes to the Financial Statements or in Section 2.37 of the Company Disclosure Schedule, all items included in the inventory of the Company and its subsidiaries are the property of the Company or its subsidiaries free and clear of any lien or other encumbrance of any kind, have not been pledged as collateral, are not held by the Company or its subsidiaries on consignment from others and conform in all material respects to all standards applicable to such inventory for its use or sale imposed by any Governmental Entity.

Section 2.38 Warranty Obligations

(a) Section 2.38 of the Company Disclosure Schedule sets forth (i) a list of all forms of written warranties, guarantees and written warranty policies of the Company and its subsidiaries in respect of any of the Company or its subsidiaries' products and services, which are currently in effect (the "Warranty Obligations"), and the duration of each such Warranty Obligation, (ii) each of the Warranty Obligations which is subject to any dispute or, to the knowledge of the Company, threatened dispute, and (iii) the experience of the Company and its subsidiaries with respect to warranties, guarantees and warranty policies of or relating to the

Company and its subsidiaries' products and services. True and correct copies of the Warranty Obligations have been delivered to Parent prior to the execution of this Agreement.

(b) (i) There have not been any material deviations from the Warranty Obligations, and no salesperson, employee or agent of the Company or its subsidiaries is authorized to undertake any obligation to any customer or other person in excess of such Warranty Obligations and (ii) the Financial Statements reflect adequate reserves for Warranty Obligations (provided that any failure to satisfy the terms of this representation which is fully compensated pursuant to the terms of the Earnout as provided in Exhibit E shall not constitute a violation of this Section 2.38(b)). All products manufactured, designed, licensed, leased, rented or sold by the Company or its subsidiaries (A) are and were free of material defects in construction and design and (B) satisfy any and all contract or other specifications related thereto to the extent stated in writing in such contracts or specifications, in each case, in all material respects.

Section 2.39 Representations Complete

None of the representations or warranties made by the Company herein or in any Schedule hereto, including the Company Disclosure Schedule, or certificate furnished by the Company pursuant to this Agreement, when all such documents are read together in their entirety, contains or will contain at the Closing Date any untrue statement of a material fact, or omits or will omit at the Closing Date to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading. There is no fact specifically relating to the Company and known to the Company that has not been disclosed to Parent in this Agreement or in the Company Disclosure Schedule that is reasonably likely to have a Company Material Adverse Effect.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PARENT

Except as disclosed in a document of even date herewith and delivered by Parent to the Company prior to the execution and delivery of this Agreement and referring to the representations and warranties in this Agreement (the "Parent Disclosure Schedule"), Parent represents and warrants to the Company as follows:

Section 3.1 Organization, Standing and Power

Parent is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Parent has the corporate power to own its properties and to carry on its business as now being conducted and as proposed to be conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified and in good standing would have a material adverse effect on the business or operations of Parent. Parent is not in violation of any of the provisions of its Certificate of Incorporation or Bylaws or equivalent charter documents.

Section 3.2 Capital Structure

As of March 31, 2002, the authorized capital stock of Parent consists of 1,000,000,000 shares of Parent Common Stock together with the Associated Rights and 20,000,000 shares of Preferred Stock, $0.01 par value per share, of which there were issued and outstanding as of the close of business on August 1, 2002, 157,611,649 shares of Parent Common Stock and no shares of Preferred Stock. As of June 30, 2002, (i) 12,700,000 shares of Parent Common Stock are reserved for issuance upon the exercise of options that have been granted and are outstanding, and (ii) no shares of Parent Common Stock are reserved for issuance upon the exercise of outstanding warrants. The shares of Parent Common Stock to be issued pursuant to the Merger, when so issued, will be duly authorized, validly issued, fully paid and non-assessable.

Section 3.3 Authority

Parent has all requisite corporate power and authority to enter into this Agreement and the Ancillary Agreements and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Parent. This Agreement and each Ancillary Agreement has been duly executed and delivered by Parent and constitutes the valid and binding obligation of Parent, enforceable against Parent in accordance with its terms except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity. The execution and delivery of this Agreement and the Ancillary Agreements do not, and the consummation of the transactions contemplated hereby and thereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under (i) any provision of the certificate or articles of incorporation or bylaws of Parent or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order or decree applicable to Parent or the properties or assets of Parent. Except for (i) the requirements of the Fairness Hearing, (ii) the filing of a certificate of merger, in accordance with the requirements of Delaware Law, (iii) such filings as may be required under the HSR Act and any applicable foreign antitrust law and (iv) if required pursuant to the provisions of Section 5.18, the filing of a Registration Statement on Form S-4, neither the execution, delivery or performance of this Agreement by Parent, the consummation by Parent of the transactions contemplated hereby, nor compliance by Parent with any of the provisions hereof will (i) require any notice to, filing with, or permit, authorization, consent or approval of, any Governmental Entity or any private third party, (ii) conflict with or result in any breach of any provision of the certificate of incorporation or bylaws of Parent, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration or result in the creation of any lien) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation to which Parent is a party or by which it or any of its properties or assets may be bound or (iv) violate any order, writ, injunction, decree, statute, treaty, rule or regulation applicable to Parent or any of its properties or assets except, in the case of clauses (i), (iii) and (iv), where the failure to obtain

such permits, authorizations, consents or approvals or to make such filings, or where such violations, breaches or defaults would not, individually or in the aggregate, materially impair the ability of Parent to consummate the transactions contemplated by this Agreement.

Section 3.4 SEC Documents; Financial Statements

Parent has timely filed and made available to the Company each required statement, report, registration statement (with the prospectus in the form filed pursuant to Rule 424(b) of the Securities Act of 1933, as amended (the "Securities Act")), definitive proxy statement, and other filings filed with the Securities and Exchange Commission (the "SEC") by Parent since December 31, 2000, and prior to the Effective Time, Parent will have furnished the Company with true and complete copies of any additional documents filed with the SEC by Parent prior to the Effective Time (collectively, the "Parent SEC Documents"). In addition, Parent has made available to the Company all exhibits to the Parent SEC Documents filed prior to the date hereof, and will promptly make available to the Company all exhibits to any additional Parent SEC Documents filed prior to the Effective Time. No Parent SEC Document (including the financial statements and related notes and schedules included therein) contained, or will contain, as of the date of their respective filings with the SEC, any untrue statement of a material fact, or omits or will omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which made, not misleading.

Section 3.5 Stockholder Approval

Approval of the stockholders of Parent is not required for this Agreement, the Ancillary Agreements or the Merger.

Section 3.6 Approval

The Board of Directors of Parent has approved this Agreement and the Ancillary Agreements to which Parent is a party and the transactions contemplated hereby and thereby.

Section 3.7 Absence of Certain Changes

Since the date of Parent's annual report on Form 10-K for the fiscal year ended March 31, 2002, through the date hereof, there has not been a material adverse effect on the business or operations of Parent. Without limiting the foregoing, during such period, except as disclosed in Parent SEC Documents filed by Parent or as contemplated by this Agreement, there has not been:

(a) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of Parent of any outstanding shares of capital stock or other equity securities of, or other ownership interests in, Parent;

(b) any amendment of any provision of the certificate of incorporation or bylaws of, or of any material term of any outstanding security issued by, Parent; or

(c) any authorization of, or commitment or agreement to take any of, the foregoing actions except as otherwise permitted by this Agreement.

Section 3.8 Brokers' and Finders' Fees

Parent has not incurred, not will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or the transactions contemplated hereby.

Section 3.9 Representations Complete

None of the representations or warranties made by Parent herein or in any Schedule hereto, including the Parent Disclosure Schedule, or certificate furnished by Parent pursuant to this Agreement, when all such documents are read together in their entirety, contains or will contain at the Closing Date any untrue statement of a material fact, or omits or will omit at the Closing Date to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading. There is no fact specifically relating to Parent and known to Parent that has not been disclosed publicly or to the Company in this Agreement or in the Parent Disclosure Schedule that is reasonably likely to have a material adverse effect on Parent.

ARTICLE IV

CONDUCT PRIOR TO THE CLOSING DATE

Section 4.1 Conduct of Business of the Company

During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, the Company shall (except to the extent expressly contemplated by this Agreement or as consented to in writing by Parent), carry on its and its subsidiaries' business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and as proposed to be conducted. The Company agrees to pay and cause each of its subsidiaries to pay debts and Taxes when due subject to good faith disputes over such debts or Taxes, to pay or perform other obligations when due subject to good faith disputes over whether payment or performance is owing, and to use all reasonable efforts consistent with past practice and policies to preserve its and its subsidiaries' present business organizations, keep available the services of its and its subsidiaries' present officers and key employees and preserve its and its subsidiaries' relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with it, to the end that its and its subsidiaries' goodwill and ongoing businesses shall not be substantially impaired at the Effective Time. The Company shall promptly notify Parent of any event or occurrence not in the ordinary course of its or its subsidiaries' respective business or consistent with past practice, and of any event which could have a Company Material Adverse Effect.

Section 4.2 Restriction on Conduct of Business of the Company

During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, except as set forth in Section 4.2 of the Company Disclosure Schedule, the Company shall not do or cause any of the following, without the prior written consent of Parent:

(a) Charter Documents. Cause any amendments to the Company Certificate of Incorporation or the bylaws of the Company (the "Company Bylaws") or form any subsidiaries;

(b) Dividends; Changes in Capital Stock. Declare or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any of its capital stock, or split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or repurchase or otherwise acquire, directly or indirectly, any shares of its capital stock except from former employees, directors and consultants in accordance with agreements providing for the repurchase of shares in connection with any termination of service to it or its subsidiaries;

(c) Stock Option Plans, Etc. Except as otherwise permitted or contemplated in this Agreement, accelerate, amend or change the period of exercisability or vesting of options or other rights granted under its stock plans or authorize cash payments in exchange for any options or other rights granted under any of such plans;

(d) Material Contracts. Enter into any material contract or commitment, or violate, amend or otherwise modify or waive any of the terms of any of its Material Contracts (it being the understanding of the parties that supply contracts entered into by the Company in the ordinary course of business which (i) have a term no greater than six (6) months in duration and (ii) require the payment of no more than $50,000 by any party to such contracts, shall not be deemed material for purposes of this paragraph);

(e) Issuance of Securities. Issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any shares of its capital stock or securities convertible into, or subscriptions, rights, warrants or options to acquire, or other agreements or commitments of any character obligating it to issue any such shares or other convertible securities, other than the issuance of shares of Company Common Stock or Company Preferred Stock pursuant to the exercise of stock options, warrants or other rights therefor outstanding as of the date of this Agreement;

(f) Intellectual Property. Transfer to any person or entity any rights to its Intellectual Property;

(g) Exclusive Rights. Enter into or amend any agreements pursuant to which any other party is granted exclusive marketing or other exclusive rights of any type or scope with respect to any of the Company's products or technology;

(h) Dispositions. Sell, lease, license or otherwise dispose of or encumber any of its properties or assets which are material, individually or in the aggregate, to its and its subsidiaries' business, taken as a whole;

(i) Indebtedness. Incur any indebtedness for borrowed money, guarantee any such indebtedness, issue or sell any debt securities or guarantee any debt securities of others;

(j) Leases. Enter into any operating lease;

(k) Payment of Obligations. Pay, discharge or satisfy any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) other than the payment, discharge or satisfaction of liabilities reflected or reserved against in the Financial Statements;

(l) Capital Expenditures. Make any capital expenditures, capital additions or capital improvements in excess of $10,000 individually or in excess of $25,000 in the aggregate.

(m) Insurance. Materially reduce the amount of any insurance coverage provided by existing insurance policies;

(n) Termination or Waiver. Terminate or waive any right of substantial value;

(o) Employee Benefit Plans; New Hires; Pay Increases. Adopt or amend any employee benefit or stock purchase or option plan, hire any new employee,

pay any special bonus or special remuneration to any employee or director or increase the salaries or wage rates of its employees;

(p) Severance Arrangements. Grant any severance or termination pay (i) to any director or officer or (ii) to any other employee except payments made pursuant to standard written agreements outstanding on the date hereof and heretofore furnished to Parent;

(q) Initiating Lawsuits. Commence legal action other than (i) for the routine collection of bills, (ii) in such cases where the Company in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of its business, provided that it consults with Parent prior to the commencement of such a suit, or (iii) for a breach of this Agreement;

(r) Acquisitions. Acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets, in each such case which are material, individually or in the aggregate, to the Company's and its subsidiaries' business, taken as a whole;

(s) Taxes. Make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, file any material Tax Return other than those for which extensions have been received as set forth in the Company Disclosure Schedule or any amendment to a material Tax Return, enter into any closing agreement, settle or compromise any

claim or assessment in respect of Taxes, or consent to any extension or waiver of the statutory period of limitations applicable to any claim or assessment in respect of Taxes;

(t) Accounting Policies and Procedures. Make any change to its accounting methods, principles, policies, procedures or practices, except as may be required by U.S. GAAP;

(u) Revaluation. Revalue any of its assets, including writing down the value of inventory or writing off notes or accounts receivable;

(v) Other. Agree in writing or otherwise to take any of the actions described in Sections 4.2(a) through (u) above.

Section 4.3 Solicitation

Until the earlier of the Effective Time or the termination of this Agreement, the Company and the officers, directors, employees or other agents of the Company will not, directly or indirectly, take any action to solicit, initiate or encourage any Takeover Proposal. Upon execution of this Agreement, the Company will immediately cease any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing. The Company will promptly notify Parent after receipt of any Takeover Proposal or any notice that any person is considering making a Takeover Proposal or any request for information relating to the Company or for access to the properties, books or records of the Company by any person that has advised the Company that it may be considering making, or that has made, a Takeover Proposal and will keep Parent timely informed of the status and details of any such Takeover Proposal notice, request or any correspondence or communications related thereto and shall provide Parent with a true and complete copy of such Takeover Proposal notice or request or correspondence or communications related thereto, if it is in writing, or a written summary thereof, if it is not in writing. The Company will promptly provide to Parent any information concerning the Company provided to any other party making or considering making a Takeover Proposal, which information was not previously provided to Parent. Neither the Company Board nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent, the approval or recommendation by the Company Board or any such committee of this Agreement or the Merger, (ii) approve or recommend or propose to approve or recommend, any Takeover Proposal, or (iii) enter into any agreement with respect to any Takeover Proposal; provided, however, that nothing contained in this Agreement shall prohibit the Company Board from (A) furnishing information to, or engaging in discussions or negotiations with any person or entity in response to an unsolicited bona fide written Takeover Proposal; or (B) recommending such an unsolicited bona fide written Takeover Proposal to the stockholders of the Company, if (i) the Company Board concludes in good faith that such Takeover Proposal would constitute a Superior Proposal, and (ii) the Company Board determines in good faith that the failure to take such action would result in a breach by the Company Board of its fiduciary duties to the Company stockholders, and (iii) prior to furnishing such information to such person or entity, the Company provides written notice to Parent that the Company is furnishing information to, or entering into discussions or negotiations with, such person or entity.

For purposes of this Agreement, "Takeover Proposal" means any offer or proposal for, or any indication of interest in, a merger or other business combination involving the Company or the acquisition of twenty percent (20%) or more of the outstanding shares of capital

stock of the Company, or twenty percent (20%) or more of the assets of, the Company, other than the transactions contemplated by this Agreement.

For purposes of this Agreement, "Superior Proposal" means (i) a bona fide Takeover Proposal made by a third party that the Company Board determines in its good faith judgment to be more favorable to the Company stockholders than the Merger and for which financing, to the extent required, is then committed or which, in the good faith judgment of the Company Board is reasonably capable of being obtained by such third party.

Section 4.4 Stockholder Approval

The Company shall take all action necessary, in accordance with Delaware Law and the Company Certificate of Incorporation and the Company Bylaws, to cause its stockholders to consider and act upon this Agreement and the Merger as soon as practicable and notwithstanding any subsequent withdrawal of the Company Board's recommendation in accordance with Section 4.3.

Section 4.5 Further Information

As soon as such information becomes available, and in any event not later than thirty (30) days after the end of each fiscal month, the Company shall provide to Parent an unaudited balance sheet as of the end of such month and the related statements of results of operations and statements of cash flows for such period together with a list of the ages and amounts of all accounts and notes due and uncollected as of the end of such month.

ARTICLE V

ADDITIONAL AGREEMENTS

Section 5.1 Preparation of Permit Application, Hearing Request, Hearing Notice and Information Statement

As promptly as practicable after the date hereof, Parent shall prepare, with the reasonable cooperation of the Company, and file with the Commissioner the documents required by the CSL including, but not limited to, any required Permit Application, request for a hearing ("Hearing Request") or notice of a hearing ("Hearing Notice") pursuant to Sections 25121 and 25142 of the CSL (collectively, the "Notice Materials"), in connection with the Merger and the issuance of Parent Common Stock, in order to perfect the exemption from registration provided by Section 3(a)(10) of the Securities Act. Each of Parent and the Company shall use all reasonable efforts to have the Permit Application, Hearing Request, and Hearing Notice declared effective under the CSL as promptly as practicable after such filing. In addition, the Company will prepare, with the cooperation of Parent, and the Company will distribute, an information statement or proxy statement (the "Information Statement") along with the Notice Materials, as may be required by California Law, at the earliest practicable date to submit this Agreement, the Merger, and the transactions contemplated hereby, to the Company stockholders. Each of the Parent and the Company will promptly provide all information relating to their respective business and operations necessary for inclusion in the Notice Materials to satisfy all

requirements of applicable state and federal securities laws. Each of Parent and the Company shall be solely responsible for any statement, information, or omission, in the Notice Materials relating to it or its affiliates based upon the written information furnished by it or its representatives.

As soon as practicable after the execution of this Agreement, the Company shall prepare, with the cooperation of Parent, the Information Statement for the stockholders of the Company to approve the Merger and the transactions contemplated by this Agreement. The Information Statement shall constitute a disclosure document for the offer and issuance of the shares of Parent Common Stock to be received by the holders of Company Capital Stock in the Merger. Parent and the Company shall each use all reasonable efforts to cause the Information Statement to comply with applicable federal and state securities laws requirements. Each of Parent and the Company agrees to provide promptly to the other such information concerning its business and financial statements and affairs as, in the reasonable judgment of the providing party or its counsel, may be required or appropriate for inclusion in the Information Statement, or in any amendments or supplements thereto, and to cause its counsel and auditors to cooperate with the other's counsel and auditors in the preparation of the Information Statement. The Company will promptly advise Parent, and Parent will

promptly advise the Company, in writing if at any time prior to the Effective Time either the Company or Parent shall obtain knowledge of any facts that might make it necessary or appropriate to amend or supplement the Information Statement in order to make the statements contained or incorporated by reference therein not misleading or to comply with applicable law. The Information Statement shall include the recommendation of the Company Board in favor of this Agreement and the Merger and the conclusion of the Board of Directors that the terms and conditions of the Merger are fair and reasonable to the stockholders of the Company. Anything to the contrary contained herein notwithstanding, the Company shall not include in the Information Statement any information with respect to Parent or its affiliates or associates, the form and content of which information shall not have been approved by Parent prior to such inclusion.

Section 5.2 Access to Information

(a) The Company shall afford Parent and its accountants, counsel and other representatives, reasonable access during normal business hours during the period prior to the Effective Time to (i) all of the Company's properties, books, contracts, commitments and records, and (ii) all other information concerning the business, properties and personnel of the Company as Parent may reasonably request. The Company agrees to provide to Parent and its accountants, counsel and other representatives copies of internal financial statements promptly upon request. Parent will, at its own expense, furnish the Company during such period with such information as the Company may reasonably request for use in determining if the conditions of Article VI have been satisfied and for use in any necessary filings to be made by the Company with appropriate Governmental Entities.

(b) Subject to compliance with applicable law, from the date hereof until the Effective Time, each of Parent and the Company shall confer on a regular and frequent basis with one or more representatives of the other party to report operational matters of materiality and the general status of ongoing operations.

(c) No information or knowledge obtained in any investigation pursuant to this Section 5.2 shall affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the transactions contemplated hereby unless such information or knowledge was embodied in writing in this Agreement, the Company Disclosure Schedule, the Parent Disclosure Schedule, or other Exhibit to this Agreement, each as delivered prior to the execution of this Agreement.

(d) To the extent not previously provided to Parent, the Company shall provide the following information to Parent within two (2) weeks after entering into this Agreement: (i) a complete list of the types of Tax Returns being filed by the Company and each of its subsidiaries in each taxing jurisdiction, (ii) the year of the commencement of the filing of each such type of Tax Return, (iii) all closed years with respect to each such type of Tax Return filed in each jurisdiction, (iv) all material Tax elections filed in each jurisdiction by the Company and each of its subsidiaries, (v) the tax basis of the assets of the Company and each of its subsidiaries, (vi) the stock basis of the Company in each of its subsidiaries and any excess loss account with respect to any of its subsidiaries, (vii) any deferred intercompany gain with respect to transactions to which the Company or any of its subsidiaries has been a party, (viii) the accumulated earnings and profits and any loss carryovers of the Company and each of its subsidiaries, and (ix) receipts for any Taxes paid to foreign Tax authorities. The Company shall provide Parent and its accountants, counsel and other representatives reasonable access, during normal business hours during the period prior to the Effective Time, to all of the Company's and its subsidiaries' Tax Returns and other records and workpapers relating to Taxes.

Section 5.3 Confidentiality

The parties hereto acknowledge that Parent and the Company have previously executed a mutual non-disclosure agreement dated January 30, 2002, as amended (the "Confidentiality Agreement"), which Confidentiality Agreement shall continue in full force and effect in accordance with its terms. In addition, the parties hereto agree that the terms and conditions of the transactions contemplated hereby, and information exchanged in connection with the execution hereof and the consummation of the transactions contemplated hereby, shall be subject to the Confidentiality Agreement.

Section 5.4 Public Disclosure

Upon execution of this Agreement, the Parent and the Company shall issue a joint press release announcing such execution. Unless otherwise permitted by this Agreement, Parent and the Company shall consult with each other before issuing any press release or otherwise making any public statement or making any other public (or non-confidential) disclosure (whether or not in response to an inquiry) regarding the terms of this Agreement or the Ancillary Agreements and the transactions contemplated hereby and thereby, and neither

shall issue any such press release or make any such statement or disclosure without the prior approval of the other (which approval shall not be unreasonably withheld), except as may be required by law or by obligations pursuant to any listing agreement with any national securities exchange or with the National Association of Securities Dealers.

Section 5.5 Consents; Cooperation

(a) Each of Parent and the Company shall promptly apply for or otherwise seek, and use all reasonable efforts to obtain, all consents and approvals required to be obtained by it for the consummation of the transactions contemplated hereby, including those required under the HSR Act and any applicable foreign antitrust laws. The Company shall use all reasonable efforts to obtain all necessary consents, waivers and approvals under any of its material contracts for the assignment thereof or otherwise. The parties hereto will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to the HSR Act or any other applicable antitrust or fair trade law.

(b) Each of Parent and the Company shall use all reasonable efforts to resolve such objections, if any, as may be asserted by any Governmental Entity with respect to the transactions contemplated by this Agreement under the HSR Act, the Sherman Act, as amended, the Clayton Act, as amended, the Federal Trade Commission Act, as amended, and any other United States federal, state or foreign statutes, rules, regulations, orders or decrees that are designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade (collectively, "Antitrust Laws"). Notwithstanding the provisions of the immediately preceding sentence, it is expressly understood and agreed that neither Parent nor the Company shall have any obligation to litigate or contest any administrative or judicial action or proceeding or any decree, judgment, injunction or other order, whether temporary, preliminary or permanent. Each of Parent and the Company shall use all reasonable efforts to take such action as may be required to cause the expiration of the notice periods under the HSR Act or other Antitrust Laws with respect to such transactions as promptly as possible after the execution of this Agreement.

(c) Notwithstanding anything to the contrary in this Agreement, nothing contained in this Agreement shall be deemed to require Parent or the Company or any subsidiary or affiliate thereof to agree to any divestiture by itself or any of its affiliates of shares of capital stock or of any business, product line, assets or property, or the imposition of any limitation on the ability of any of them to conduct their businesses or to own or exercise unfettered control of such product line, assets, properties and stock. The Company shall not take or agree to take any action identified in the immediately preceding sentence without the prior written consent of Parent.

Section 5.6 Legal Requirements

Each of Parent and the Company will, and will cause their respective subsidiaries to, take all reasonable actions necessary to comply in all material respects promptly with all legal requirements which may be imposed on them with respect to the consummation of the transactions contemplated by this Agreement and will take all reasonable actions necessary to obtain (and will cooperate with the other parties hereto in obtaining) any consent, approval, order or authorization of, or any registration, declaration or filing with, any Governmental Entity or other person, required to be obtained or made by them in connection with the taking of any action contemplated by this Agreement.

Section 5.7 Blue Sky Laws

Parent shall take such steps as may be necessary to comply with the securities and blue sky laws of all jurisdictions which are applicable to the issuance of the Parent Common Stock in connection with the Merger. The Company shall use all reasonable efforts to assist Parent as may be necessary to comply with the securities and blue sky laws of all jurisdictions which are applicable in connection with the issuance of Parent Common Stock in connection with the Merger.

Section 5.8 Employee Benefit Plans; Options

(a) Schedule 5.8(a) sets forth a true and complete list as of the date hereof of all holders (the "Option and Rights Holders") of all outstanding Company Stock Options and Company Stock Rights granted under the Company Stock Plans, and all other outstanding rights to purchase or receive Company Common Stock (collectively, the "Company Grants"), the number of shares subject to each

such option or right, the grant dates, the exercise and purchase prices, to the extent applicable, the exercise and vesting schedules and the terms of such options or rights. On the Closing Date, the Company shall deliver to Parent an updated Schedule 5.8 current as of such date.

(b) The aggregate consideration that will be paid to (or on behalf of) the Option and Rights Holders in consideration of, and subject to, the cancellation of all rights under the Company Grants pursuant to Section 1.7(a)(4) of this Agreement, shall be in the range of approximately $1,880,000 to $2,020,000, $200,000 of which shall be paid by the Company immediately prior to the Closing, and the remaining approximately $1,680,000 to $1,820,000 shall be paid, as soon as practicable following Closing, in the same form as the Total Consideration. Schedule 5.8(b) sets forth the formula and method for computing the consideration paid with respect to the Company Grants, the maximum amount to be paid with respect to each Company Grant listed thereon, the terms, conditions and requirements that must be satisfied for the Option and Rights Holders to be entitled to this consideration, and the timing and form of payment to the Option and Rights Holders.

(c) The Company and Parent agree that each of the Company Stock Plans, agreements and other documents evidencing the Company Grants shall be amended, to the extent necessary, to reflect the transactions contemplated by this Agreement, and the Company and Parent shall adopt such resolutions and take all such other actions, including without limitation, applying to the California Department of Corporations for a permit to issue securities as set forth in Schedule 5.8(b), as may be required to permit the transactions contemplated by this Section 5.8.

Section 5.9 [Intentionally omitted]

Section 5.10 Listing of Additional Shares

Prior to the Effective Time, if required, Parent shall use all reasonable efforts to cause the shares of Parent Common Stock issuable to the stockholders of the Company pursuant to Section 1.7 to be authorized for listing on the New York Stock Exchange (or such other stock

exchange or trading system on which the shares are then primarily trading), subject to notice of issuance.

Section 5.11 [Intentionally omitted]

Section 5.12 Expenses

Except as otherwise provided in Section 7.3 and elsewhere in this Agreement, whether or not the transactions contemplated hereunder are consummated, all costs and expenses incurred in connection with this Agreement and the Ancillary Agreements, and the transactions contemplated hereby and thereby shall be paid by the party incurring such expense.

Section 5.13 Warrants

The Company will use all reasonable efforts to ensure that all the Company Warrants are exercised in full, whether pursuant to a cashless exercise or otherwise, or surrendered and terminated prior to the Closing without expenditure of funds from the Company such that no Company Warrant shall remain outstanding following the Closing.

Section 5.14 Reasonable Efforts and Further Assurances

Prior to the Closing, upon the terms and subject to the conditions of this Agreement, Parent and the Company agree to use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable (subject to any applicable laws) to consummate and make effective the Merger as promptly as practicable including, but not limited to (i) the prompt preparation by Parent, with cooperation from the Company, and filing with the Commissioner of a Permit Application, the preparation and filing of all other forms, registrations and notices required to be filed to consummate the Merger and the taking of such actions as are necessary to obtain any requisite approvals, consents, orders, exemptions or waivers by any third party or Governmental Entity, and (ii) the satisfaction of the other parties' conditions to Closing.

Section 5.15 Indemnification

The provisions of this Section 5.15 are intended to be for the benefit of, and will be enforceable by, each director and officer of the Company entitled to indemnification from the Company. Parent will not permit the Company to merge or consolidate with any other entity, dissolve, or otherwise cease its corporate existence unless Parent makes adequate provisions for the assumption of the obligations imposed by this Section 5.15. Any amendment, repeal, or modification of the provisions with respect to indemnification that are set

forth in the Company Certificate of Incorporation and the Company Bylaws shall not in any manner affect adversely the rights thereunder of individuals who at, or at any time prior to, the Effective Time, were directors or officers of the Company. From and after the Effective Time, Parent will, for a period of six (6) years after the Closing, cause the Company to fulfill and honor in all respects the obligations of the Company pursuant to any indemnification agreements between the Company and its directors and officers and any indemnification provisions under the Company Certificate of Incorporation or Company Bylaws as in effect immediately prior to the Effective Time.

Section 5.16 Termination of Pension Plan

If required by Parent in writing, the Company shall, effective as of at least one (1) day prior to the Closing Date, have terminated the Company 401(k) Plan (the "Plan") and no further contributions shall be made to the Plan. The Company shall provide to Parent (i) executed resolutions by the Company Board authorizing the termination and (ii) an executed amendment to the Plan, which in the Parent's reasonable judgment is sufficient to assure compliance with all applicable requirements of the Code and regulations thereunder.

Section 5.17 Information Supplied

(a) The Company hereby represents and warrants that none of the information supplied in writing by the Company for inclusion or incorporation by reference in (i) the application for a permit to issue securities to be filed with the Commissioner of Corporations of the State of California (the "Commissioner") pursuant to Section 25121 of the CSL, in connection with the issuance of shares of Parent Common Stock pursuant to the transactions contemplated hereby, including the disclosure documents relating thereto (the "Permit Application") will, at the time the Permit Application is filed with the Commissioner and at the time the Fairness Hearing is held, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Information Statement provided to Company stockholders in connection with obtaining stockholder approval of the Merger will, at the time it is mailed to the stockholders and at all times during which stockholder consents are solicited in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Permit Application will comply in all material respects with the provisions of the CSL, and the rules and regulations thereunder, except that no representation is made by the Company with respect to statements made therein based on information supplied by Parent for inclusion or incorporation by reference therein.

(b) Parent hereby represents and warrant that none of the information supplied in writing by Parent for inclusion or incorporation by reference in (i) the Permit Application will, at the time the Permit Application is filed with the Commissioner and at the time the Fairness Hearing is held, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Information Statement will, at the time it is mailed to the Company stockholders and at all times that stockholder consents are being solicited in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by Parent with respect to statements made therein based on information supplied by the Company for inclusion or incorporation by reference in the Permit Application or the Information Statement.

Section 5.18 Registration Statement

If, following the Fairness Hearing, a permit is not issued pursuant to the Permit Application and if required by applicable securities laws for the issuance of Parent Common

Stock to holders of Company Capital Stock in the Merger in accordance with the terms and provisions of this Agreement, Parent and the Company shall cooperate either, at Parent's option, promptly, without any unnecessary or unreasonable delay, (i) to register the issuance of shares of Parent Common Stock by means of the preparation and filing with the SEC of a Registration Statement on Form S-4 or any other appropriate form to effect registration of such issuance and use all reasonable efforts to have such Registration Statement declared effective as soon as practicable after such filing or (ii) to qualify the issuance of Parent Common Stock under any available exemption from registration legally available for such issuance and then promptly, without any unnecessary or unreasonable delay, to register such shares for resale on any available registration statement, it being the obligation of Parent to utilize the form of registration

statement that would reasonably be expected to result in the most rapid effectiveness of such registration.

Section 5.19 FIRPTA Certificate

The Company shall, prior to the Closing Date, provide Parent with a properly executed FIRPTA Certificate, in form and substance reasonably acceptable to Parent, which states that shares of capital stock of the Company do not constitute "United States real property interests" under section 897(c) of the Code, for purposes of satisfying Parent's obligations under Treasury Regulation section 1.1445-2(c)(3). In addition, simultaneously with delivery of such Notification Letter, the Company shall have provided to Parent, as agent for the Company, a form of notice to the IRS in accordance with the requirements of Treasury Regulation section 1.897-2(h)(2) and substantially in the form of Exhibit I attached hereto along with written authorization for Parent to deliver such notice form to the IRS on behalf of the Company upon the Closing of the Merger.

Section 5.20 [Intentionally Omitted]

Section 5.21 Affiliate Agreements

Schedule 5.21 sets forth those persons who, in the Company's reasonable judgment, are "affiliates" of the Company within the meaning of Rule 145 promulgated under the Securities Act (each such person an "Affiliate"). The Company shall provide Parent such information and documents as Parent shall reasonably request for purposes of reviewing such list. The Company has delivered or shall cause to be delivered to Parent, prior to the Effective Time, from each of its respective Affiliates, an executed Affiliate Agreement in the form attached hereto as Exhibit J. Parent shall be entitled to place appropriate legends on the certificates evidencing any Parent Common Stock to be received by Affiliates of the Company pursuant to the terms of this Agreement, and to issue appropriate stop transfer instructions to the transfer agent for Parent Common Stock, consistent with the terms of such Affiliate Agreements.

Section 5.22 Company Technology

The Company shall, prior to the Closing Date, deliver to Parent a true and complete list of all material Company Technology, specifying whether (and if so, which of) the Company or any of its subsidiaries owns or licenses such material Company Technology from a third party.

ARTICLE VI

CONDITIONS TO THE CLOSING

Section 6.1 Conditions to Obligations of Each Party to Effect the Merger

The respective obligations of each party to this Agreement to consummate and effect the Merger and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of each of the following conditions, any of which may be waived, in writing, by agreement of all the parties hereto:

(a) Stockholder Approval. This Agreement and the Merger shall have been approved and adopted by the requisite vote of the stockholders of the Company under Delaware Law.

(b) No Injunctions or Restraints; Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Merger shall be in effect, nor shall any action or proceeding brought by an administrative agency or commission or other Governmental Entity or instrumentality, domestic or foreign, seeking any of the foregoing be pending; nor shall there be any action taken, or any statute, rule, regulation or order enacted, entered or enforced, which makes the consummation of the Merger illegal. Except as otherwise provided in Section 5.5 hereof, in the event an injunction or other order shall have been issued, each party agrees to use all reasonable efforts to have such injunction or other order lifted.

(c) Governmental Approval. Parent, the Company and their respective subsidiaries shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, necessary for consummation of, or in connection with, the several transactions contemplated hereby, and the applicable waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have expired or been terminated.

(d) Escrow Agreement. Parent, the Company, Escrow Agent, and the Stockholders' Agent shall have entered into an Escrow Agreement substantially in the form attached hereto as Exhibit B.

(e) Permit to Issue Securities; Registration Statement. Either (i) the Commissioner shall have issued the permit pursuant to the Permit Application and the qualification thereunder shall not be the subject of any stop order or proceedings seeking a stop order and if not so issued or if issued and subject to a stop order then, in the alternative either (i) Parent's Registration Statement on Form S-4 shall have been declared effective by the SEC and the issuance of Parent Common Stock in the Merger shall not be the subject of any stop order or proceedings seeking a stop order or (ii) the issuance of Parent Common Stock pursuant to the Merger shall, in the opinion of Parent, be exempt from registration (and Parent affirms its obligations to register such shares pursuant to Section 5.18).

(f) Price of Parent Common Stock. The closing price of Parent Common Stock on the New York Stock Exchange shall not be below $1.75 per share.

Section 6.2 Additional Conditions to Obligations of the Company

The obligations to consummate and effect the Merger and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of each of the following conditions, any of which may be waived, in writing, by the Company:

(a) Representations, Warranties and Covenants. Except as otherwise qualified by information disclosed in the Parent Disclosure Schedule, (i) the representations and warranties of Parent in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality or material adverse effect which representations and warranties as so qualified shall be true in all respects) on and as of the Effective Time as though such representations and warranties were made on and as of such time (except for such representations and warranties which speak as of a particular time which representations and warranties need be true and correct only as of such time) and (ii) Parent shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by them as of the Effective Time.

(b) Certificate of Parent. The Company shall have received from Parent an officer's certificate certifying to the fulfillment of the conditions specified in Section 6.2(a).

(c) Listing of Additional Shares. The shares of Parent Common Stock issuable to the stockholders of the Company pursuant to Section 1.7 shall have been authorized for listing on the New York Stock Exchange, subject to notice of issuance.

Section 6.3 Additional Conditions to the Obligations of Parent

The obligations of Parent to consummate and effect the Merger and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of each of the following conditions, any of which may be waived, in writing, by Parent:

(a) Representations, Warranties and Covenants. Except as otherwise qualified by information disclosed in the Company Disclosure Schedule, (i) the representations and warranties of the Company in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality or Company Material Adverse Effect which representations and warranties as so qualified shall be true in all respects) on and as of the Closing Date as though such representations and warranties were made on and as of such date (except for such representations and warranties which speak as of a particular time which representations and warranties need be true and correct only as of such time) and (ii) the Company shall in all material respects have performed and complied with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it as of the Effective Time.

(b) Certificates of the Company. Parent shall have received (i) a certificate of the Company executed by an officer certifying fulfillment of the conditions set forth in

Sections 6.3(a), 6.3(e) 6.3(f), 6.3(l), 6.3(m) and 6.3(n), and including the certification described in Section 1.8(d) of this Agreement and the information required by Section 1(a) of Exhibit F attached hereto, and (ii) a certificate signed by the Chief Executive Officer and Chief Financial Officer of the Company certifying to the best of their knowledge that the Financial Statements do not contain an untrue statement of a material fact as of the end of the period covered by such Financial Statements and that no Financial Statement omitted to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading as of the end of the

period covered by such Financial Statement.

(c) Third Party Consents.

(1) Parent shall have been furnished with evidence reasonably satisfactory of the consent or approval of those persons whose consent or approval shall be required in connection with the transactions contemplated hereby under the contracts of the Company set forth on Section 2.30 of the Company Disclosure Schedule.

(2) Parent shall have been furnished with evidence reasonably satisfactory of the consent or approval of all of those persons whose consent or approval shall be required in connection with the transactions contemplated hereby under the contracts of the Company set forth on Section 2.31 of the Company Disclosure Schedule.

(d) Legal Opinion. Parent shall have received a legal opinion from the Company's legal counsel, in substantially the form of Exhibit K.

(e) No Material Adverse Changes. There shall not have occurred any material adverse change in the condition (financial or otherwise), properties and assets (including intangible assets), liabilities, business, prospects, operations or results of operations of the Company, taken as a whole.

(f) Resignation of Directors. The directors of the Company in office immediately prior to the Effective Time shall have resigned as directors of the Company effective as of the Effective Time, and Parent shall have received letters of resignation from such persons.

(g) Employment Condition. No fewer than 75% of the employees of the Company set forth on Schedule 6.3(g) shall remain employed by the Company as of the Effective Time.

(h) Escrow Agreement. The Escrow Agent, Parent and the Stockholders' Agent shall have entered into an Escrow Agreement substantially in form and substance as set forth in Exhibit B with such changes as the Escrow Agent may reasonably request.

(i) Lock-Up Agreements. The stockholders of the Company identified on Schedule 6.3(i) and any other stockholder of the Company holding more than one percent (1%) of the outstanding shares of Company Common Stock as of immediately prior to the Closing (including any shares outstanding as the result of the cancellation or acceleration of Company Options) shall have entered into the Lock-Up Agreements in form and substance as set forth in Exhibit C.

(j) Invention Assignment Agreements. Each of the Company's employees shall have entered into Parent's "Employee Proprietary Information and Invention Agreement" in form and substance as set forth in Exhibit D attached hereto.

(k) Dissenting Shares. Holders of Company Common Stock and Company Preferred Stock representing ninety-five percent (95%) of the aggregate number of issued and outstanding shares of Company Common Stock on a fully-diluted, as-converted basis shall have executed a written consent to approval and adoption of the Merger Agreement and approval of the Merger or waived their appraisal rights under Delaware Law.

(l) Warrants. All outstanding warrants, including Company Warrants, shall have been exercised or terminated, provided that Parent may, in its sole discretion, notify the Company of its decision to assume any outstanding warrants and rely upon the adjustment to the Total Parent Shares provided in Section 1.7(a)(5) hereof.

(m) Submission of Expenses. Parent shall have received a detailed statement of Company Fees and Expenses, the accuracy of which shall be certified by an executive officer of the Company, together with all backup documentation in connection therewith.

(n) Termination of Plan. If so required by Parent in writing pursuant to Section 5.16, the Company shall have terminated the Plan and Parent shall have received (i) executed resolutions by the Company Board authorizing the termination of the Plan and (ii) an executed amendment to the Plan sufficient to assure compliance with all applicable requirements of the Code and regulations thereunder so that the tax-qualified status of the Plan shall have been maintained at the time of termination.

(o) FIRPTA Certificate. The Company shall have provided Parent with the properly executed FIRPTA Certificate in form and substance reasonably acceptable to Parent. In addition, the Company shall have provided to Parent, as agent for the Company, a form of notice to the IRS in accordance with the requirements of Treasury Regulation Section 1.897-2(h)(2) and substantially in the form of Exhibit I attached hereto along with written authorization for Parent to deliver such notice form to the IRS on behalf of the Company upon the

Closing. If the Company fails to deliver the FIRPTA Certificate, Parent may (but shall not be required to) waive this condition and withhold appropriate amounts as required under applicable law.

(p) Affiliate Agreements. Each of the Affiliates of the Company set forth on Schedule 5.21 or persons who otherwise are "affiliates" of the Company within the meaning of Rule 145 promulgated under the Securities Act shall have entered into Affiliate Agreements in form and substance as set forth in Exhibit J hereto.

(q) Company Technology. The Company shall have delivered to Parent a true and complete list of all material Company Technology, specifying whether (and if so, which of) the Company or any of its subsidiaries owns or licenses such material Company Technology from a third party.

(r) Tax Opinion. If Parent elects to consummate the Merger pursuant to the Alternative Acquisition Structure described in Section 7.6, Parent shall have received an opinion

of its counsel substantially to the effect that on the basis of facts, representations, and assumptions set forth in such opinion which are consistent with the state of facts existing as of the Effective Time, for Federal income tax purposes, the Merger will constitute a "reorganization" within the meaning of section 368(a) of the Code. In preparing such tax opinion, counsel may rely on reasonable assumptions and may also rely on (and to the extent reasonably required, the parties shall make) reasonable representations related thereto.

Section 6.4 Frustration of Conditions

Neither Parent nor the Company may rely on the failure of any condition set forth in this Article VI to be satisfied if such failure was caused by such party's failure to comply with or perform any of its covenants or obligations set forth in this Agreement.

ARTICLE VII

TERMINATION, AMENDMENT AND WAIVER

Section 7.1 Termination

At any time prior to the Effective Time, whether before or after approval of the matters presented in connection with the Merger to the stockholders of the Company, this Agreement may be terminated:

(a) by mutual consent of Parent and the Company;

(b) by either Parent or the Company, if the Closing shall not have occurred on or before January 3, 2003 (and the right to terminate this Agreement under this Section 7.1(b) may not be restricted or waived except pursuant to a written instrument making specific reference to this Section 7.1(b)); provided, that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose action or failure to act has been the cause or resulted in the failure of the Merger to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

(c) by Parent, if the Company shall breach any representation, warranty, obligation or agreement hereunder and such breach shall not have been cured within ten (10) business days of receipt by the Company of written notice of such breach;

(d) by Parent, if (i) the Company Board shall have withdrawn or modified its recommendation of this Agreement in a manner adverse to Parent; (ii) the Company Board shall approve or recommend any Superior Proposal; (iii) the Company shall enter into any letter of intent (binding or otherwise), arrangement or agreement pursuant to which the Company accepts any Superior Proposal; or (iv) the Company or the Company Board shall have resolved to do any of the foregoing;

(e) by the Company, if Parent shall breach any representation, warranty, obligation or agreement hereunder and such breach shall not have been cured within ten (10) business days following receipt by Parent of written notice of such breach; and

(f) by Parent or the Company if (i) any permanent injunction or other order of a court or other competent authority preventing the consummation of the Merger shall have become final and nonappealable or (ii) if any required approval of the stockholders of the Company shall not have been obtained.

Section 7.2 Effect of Termination

In the event of termination of this Agreement as provided in Section 7.1, this Agreement shall forthwith become void, and except as provided in Section 7.3, there shall be no liability or obligation on the part of Parent or the Company or their respective officers, directors, stockholders or affiliates, except to the extent that such termination results from material breach by a party hereto of any of its representations, warranties or covenants set forth in this Agreement; provided that the provisions of Section 5.3 (Confidentiality), Section 7.3 (Expenses and Termination Fees), this Section 7.2 and Article IX shall remain in full force and effect and survive any termination of this Agreement.

Section 7.3 Expenses and Termination Fees

(a) Subject to Sections 5.12 and 7.3(b), whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby (including, without limitation, the fees and expenses of its advisers, accountants and legal counsel) shall be paid by the party incurring such expense, except that in the event the Merger is consummated and the amount of any legal, accounting, broker's, investment banker and any other fees and expenses incurred by the Company in connection with the execution of this Agreement and the Ancillary Agreements and the consummation of the Merger and other transactions contemplated hereby and thereby (such amount referred to as "Company Fees and Expenses") exceeds $600,000, the Cash Consideration shall be reduced as follows:

(1) If the amount of Company Fees and Expenses exceeds $900,000, the Cash Consideration shall be reduced by subtracting from the Cash Consideration the sum of $150,000 plus the amount by which Company Fees and Expenses exceed $900,000; and

(2) If the amount of Company Fees and Expenses exceeds $600,000 but is less than or equal to $900,000, the Cash Consideration shall be reduced by subtracting from the Cash Consideration one half of the amount by which Company Fees and Expenses exceed $600,000.

In the event of a reduction of the Cash Consideration pursuant to Section 7.3(a), the allocation of the Merger Consideration pursuant to Article I hereof and all related schedules and calculations required thereunder shall be appropriately adjusted to reflect such reduction.

(b) In the event that this Agreement shall be terminated pursuant to Section 7.1(d), then the Company shall promptly pay to Parent an amount equal to $5,000,000.

Section 7.4 Amendment

The parties hereto may cause this Agreement to be amended at any time by execution of an instrument in writing signed on behalf of each of the parties hereto; provided, that an amendment made subsequent to adoption of this Agreement by the stockholders of the Company shall not (i) alter or change the amount or kind of consideration to be received on conversion of the Company Capital Stock, (ii) alter or change any term of the Certificate of Incorporation of the Surviving Corporation to be effected by the Merger, or (iii) alter or change any of the terms and conditions of the Agreement if such alteration or change would materially adversely affect the holders of Company Capital Stock.

Section 7.5 Extension; Waiver

At any time prior to the Effective Time any party hereto may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

Section 7.6 Alternative Acquisition Structure

At the election of Parent, the parties hereby agree to (i) restructure the Merger as a forward subsidiary merger whereby the Company shall merge into and with a first tier, wholly owned subsidiary of Parent ("Merger Sub") with Merger Sub surviving (the "Alternative Acquisition Structure") and (ii) if Parent elects to consummate the Merger pursuant to the Alternative Acquisition Structure, make all reasonable or necessary amendments to this Agreement in connection therewith.

ARTICLE VIII

ESCROW AND INDEMNIFICATION

Section 8.1 Escrow Fund

Within five (5) business days after the Effective Time, the Escrow Shares shall be registered in the name of, and be deposited with, an institution selected by Parent with the reasonable consent of the Company as escrow agent (the "Escrow Agent"), such deposit (together with interest and other income thereon) to constitute the escrow fund (the "Escrow Fund") and to be governed by the terms set forth herein and in the Escrow Agreement attached hereto as Exhibit B. The Escrow Fund shall consist of 1,567,388 shares of Parent Common Stock and, in addition to shares of Parent Common Stock that may otherwise be issued pursuant to the Earnout, shall be available to compensate Parent pursuant to the indemnification obligations of the Company for Damages.

Section 8.2 Indemnification

(a) Subject to the limitations set forth in this Article VIII, the stockholders of the Company will indemnify and hold harmless Parent and its officers, directors, agents and employees, and each person, if any, who controls or may control Parent within the meaning of the Securities Act from and against any and all losses, costs, damages, liabilities, Tax and expenses arising from claims, demands, actions, causes of action, including, without limitation, reasonable legal fees, (collectively, "Damages") arising out of any misrepresentation or breach of, or default in connection with, any of the representations, warranties, covenants and agreements given or made by the Company in this Agreement, the Company Disclosure Schedule or any exhibit or schedule to this Agreement. The Escrow Fund allocated shall be the security for this indemnity obligation subject to the limitations in this Agreement.

(b) Parent and the Company each acknowledge that such Damages, if any, would relate to unresolved contingencies existing at the Effective Time, which if resolved at the Effective Time would have led to a reduction in the total number of shares of Parent Common Stock that Parent would have agreed to issue in connection with the Merger.

(c) Parent may not receive any shares of Parent Common Stock from the Escrow Fund unless and until one or more Officer's Certificates identifying Damages the aggregate amount of which exceeds $350,000 (the "Indemnity Threshold") have been delivered to the Escrow Agent as provided in Section 8.4 and such amount is determined pursuant to this Article VIII to be payable, in which case, Parent shall receive shares of Parent Common Stock for cancellation equal in value to the full amount of Damages. In determining the amount of any Damage attributable to a breach, any materiality standard contained in a representation, warranty or covenant of the Company shall be disregarded. In the event the aggregate amount of Damages exceeds the amount in the Escrow Fund, Parent may deduct the amount of such excess from any amounts payable under the Earnout (calculated as of the date of payment in accordance with Section 8.4(c)).

(d) Following the Effective Time, Parent's sole remedy for breach of the representations and warranties contained in this Agreement shall be limited to amounts in the Escrow Fund or issuable pursuant to the Earnout.

Section 8.3 Escrow Period

The escrow period (the "Escrow Period") shall terminate at 11:59 p.m. Pacific Standard Time on the one (1) year anniversary of the Closing Date; provided, however, that such portion of the Escrow Fund, which has been set aside pursuant to Section 8.4(a)(2) to satisfy any unsatisfied claims specified in any Officer's Certificate theretofore delivered to the Escrow Agent prior to termination of the Escrow Period with respect to facts and circumstances existing prior to expiration of the Escrow Period, shall remain in the Escrow Fund until such claims have been resolved.

Section 8.4 Claims upon Escrow Fund

(a) Upon receipt by the Escrow Agent on or before the last day of the Escrow Period of a certificate signed by any officer of Parent (an "Officer's Certificate"):

(1) stating that Damages exist in an aggregate amount greater than the Indemnity Threshold for claims against the Escrow Fund; and

(2) specifying in reasonable detail the individual items included in the amount of Damages in such claim, the date each such item was paid, properly accrued or arose and the nature of the misrepresentation, breach of warranty or claim to which such item is related, the Escrow Agent shall set aside such Parent Common Stock or other assets held in the Escrow Fund, as applicable, having a value as of the

date of such Officer's Certificate (the "Valuation Date") (calculated in accordance with Section 8.4(c)) equal to such Damages.

(b) Upon the earliest of: (i) receipt of written authorization from the Stockholders' Agent or from the Stockholders' Agent jointly with Parent to make such delivery, (ii) receipt of written notice of a final decision in arbitration of the claim, or (iii) in the event the claim set forth in the Officer's Certificate is uncontested by the Stockholders' Agent as of the close of business on the next business day following the forty-fifth (45th) day following receipt by the Escrow Agent of the Officer's Certificate; on the next business day the Escrow Agent shall deliver Parent Common Stock or other assets from the Escrow Fund to Parent having a value, as of the Valuation Date determined by the Officer's Certificate relating to a particular claim, equal to the amount of Damages to be paid (calculated in accordance with Section 8.4(c)).

(c) For the purpose of compensating Parent for its Damages pursuant to this Agreement, the Parent Common Stock in the Escrow Fund shall be valued based on the average of the closing price of Parent Common Stock on the New York Stock Exchange for the ten (10) trading days ending on the trading day immediately preceding the Valuation Date; provided, that if the Parent Common Stock is no longer listed on the New York Stock Exchange, then such other principal U.S. national securities exchange (as defined in the Exchange Act) on which Parent Common Stock, or other applicable common stock, is then traded shall be used, or if such Parent Common Stock, or other applicable common stock, is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security or a Nasdaq SmallCap Market Security by the National Association of Securities Dealers, Inc., then such market system shall be used, or if such Parent Common Stock, or such other applicable common stock, is not listed or quoted on any of the foregoing, then the OTC Bulletin Board shall be used, or, failing that, by mutual agreement between Parent and the Stockholders' Agent.

Section 8.5 Objections to Claims

At the time of delivery of any Officer's Certificate to the Escrow Agent, a duplicate copy of such Officer's Certificate shall be delivered to the Stockholders' Agent and for a period of forty-five (45) days after such delivery to the Escrow Agent of such Officer's Certificate, the Escrow Agent shall make no delivery of Parent Common Stock pursuant to Section 8.4 unless the Escrow Agent shall have received written authorization from the Stockholders' Agent to make such delivery. After the expiration of such forty-five (45) day period, the Escrow Agent shall make delivery of Parent Common Stock then in the Escrow Fund in accordance with Section 8.4, provided that no such payment or delivery may be made if the Stockholders' Agent shall object in a written statement to the claim made in the Officer's Certificate, and such statement shall have been delivered to the Escrow Agent and to Parent prior to the expiration of such forty-five (45) day period.

Section 8.6 Resolution of Conflicts; Arbitration

(a) In case the Stockholders' Agent shall so object in writing to any claim or claims by Parent made in any Officer's Certificate, Parent shall have forty-five (45) days after receipt by the Escrow Agent of an objection by the Stockholders' Agent to respond in a written statement to the objection of the Stockholders' Agent. If after such forty-five (45) day period there remains a dispute as to any claims, the Stockholders' Agent and Parent shall attempt in good faith for sixty (60) days to agree upon the rights of the respective parties with respect to each of such claims. If the Stockholders' Agent and Parent should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Escrow Agent. The Escrow Agent shall be entitled to rely on any such memorandum and shall distribute the Parent Common Stock from the Escrow Fund in accordance with the terms thereof.

(b) If no such agreement can be reached after good faith negotiation, either Parent or the Stockholders' Agent may, by written notice to the other, demand arbitration of the matter unless the amount of the damage or loss is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration; and in either such event the matter shall be settled by arbitration conducted by three arbitrators. Within fifteen (15) days after such written notice is sent, Parent and the Stockholders' Agent shall each select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. The decision of the arbitrators as to the validity and amount of any claim in such Officer's Certificate shall be binding and conclusive upon the parties to this Agreement, and notwithstanding anything in this Section 8.6, the Escrow Agent shall be entitled to act in accordance with such decision and make or withhold payments out of the Escrow Fund in accordance therewith.

(c) Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction. Any such arbitration shall be held in Boulder or Denver, Colorado under the commercial rules then in effect of the

American Arbitration Association. Parent, on the one hand, and the Company stockholders, on the other hand, shall each bear its/their own expenses (including, attorneys' fees and expenses) incurred in connection with any such arbitration. In the event the arbitrator or arbitrators find in favor of Parent as to the claim in dispute, all fees, costs, and the reasonable expenses of legal counsel incurred by Parent will be charged against the Escrow

Fund in addition to the amount of the disputed claim; in the event the arbitrator or arbitrators find in favor of the Company stockholders as to the claim in dispute, all fees, costs, and the reasonable expenses of legal counsel incurred by the Company stockholders will be paid by Parent (all such determinations to be made by the arbitrator or arbitrators). The fees and expenses of each arbitrator and the administrative fee of the American Arbitration Association shall be allocated by the arbitrator or arbitrators, as the case may be, as they may determine to be just and equitable (or, if not so allocated, shall be borne equally by Parent, on the one hand, and the Company stockholders, on the other hand).

Section 8.7 Stockholders' Agent

(a) Jesse Aweida shall be constituted and appointed as the Stockholders' Agent for and on behalf of the stockholders of the Company to give and receive notices and communications, to authorize delivery to Parent of the Parent Common Stock from the Escrow Fund in satisfaction of claims by Parent, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of the Stockholders' Agent for the accomplishment of the foregoing. Such agency may be changed by the holders of a majority in interest of the Escrow Fund from time to time upon not less than ten (10) days' prior written notice to all of the Company stockholders and to Parent. No bond shall be required of the Stockholders' Agent, and the Stockholders' Agent shall receive no compensation for his services. Notices or communications to or from the Stockholders' Agent shall constitute notice to or from each of the Company stockholders.

(b) The Stockholders' Agent shall not be liable for any act done or omitted hereunder as Stockholders' Agent while acting in good faith, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith. The Company stockholders shall severally indemnify the Stockholders' Agent and hold him harmless against any loss, liability or expense incurred without gross negligence or bad faith on the part of the Stockholders' Agent and arising out of or in connection with the acceptance or administration of his duties hereunder.

(c) The Stockholders' Agent will serve without compensation.

Section 8.8 Actions of the Stockholders' Agent

A decision, act, consent or instruction of the Stockholders' Agent shall constitute a decision of all of the Company stockholders and shall be final, binding and conclusive upon each and every Company stockholder, and the Escrow Agent and Parent may rely upon any decision, act, consent or instruction of the Stockholders' Agent as being the decision, act, consent or instruction of each and every Company stockholder. The Escrow Agent and Parent are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the Stockholders' Agent.

Section 8.9 Third-Party Claims

In the event that Parent becomes aware of a third-party claim which Parent believes may result in a demand against the Escrow Fund, Parent shall promptly notify the Stockholders' Agent of such claim, and the Stockholders' Agent and the Company stockholders shall be entitled, at their expense, to participate in any defense of such claim. Parent shall not have the right to settle and effect the settlement of any such claim without the consent of the Stockholders' Agent, which consent shall not be unreasonably withheld. In the event that the Stockholders' Agent has consented to any such settlement, the Stockholders' Agent shall have no power or authority to object under Section 8.5 or any other provision of this Article VIII to any claim by Parent against the Escrow Fund for indemnity in the amount of such settlement.

ARTICLE IX

GENERAL PROVISIONS

Section 9.1 Survival

The representations and warranties of the Company contained herein shall survive until the end of the Escrow Period, except that the representations and warranties contained in Sections 2.2 (Capitalization; Title to the Shares), 2.3 (Authority), 2.14 (Taxes), 2.15 (Employee Benefit Plans) and 2.24 (Vote Required) shall survive until thirty (30) days after the expiration of the applicable statutes of limitations. The agreements set forth in this Agreement shall terminate at the Effective Time except to the extent certain agreements set forth herein by their terms call for action after the Effective Time.

Section 9.2 Notices

All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or mailed by registered or certified mail (return receipt requested) to the parties at the following address (or at such other address for a party as shall be specified by like notice):

(a) if to Parent, to:

Quantum Corporation
501 Sycamore Drive
Milpitas, CA 95035
Attention: General Counsel
Facsimile No.: (408) 944-6581

with a copy (not notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
525 University Avenue
Palo Alto, CA 94301
Attention: Kenton J. King
Facsimile No.: (650) 470-4570

(b) if to the Company, to:

Benchmark Storage Innovations, Inc.
3122 Sterling Circle
Boulder, CO 80301
Attention: Lewis Frauenfelder, President
Facsimile No.: (720) 406-5096

with a copy (not notice) to:

Ireland, Stapleton, Pryor & Pascoe, P.C.
1675 Broadway, 26/th/ Floor
Denver, CO 80202
Attention: John G. Lewis
Facsimile No.: (303) 623-2062

(c) if to the Stockholders' Agent, to:

Jesse Aweida
Aweida Ventures Management
890 West Cherry Street, Suite 220
Louisville, CO 80027
Facsimile No.: (303) 664-9530

with a copy (not notice) to:

Alan Kenney, Esq.
Aweida Ventures Management
890 West Cherry Street, Suite 220
Louisville, CO 80027
Facsimile No.: (303) 664-9530

Section 9.3 Interpretation

When a reference is made in this Agreement to Exhibits, such reference shall be to an Exhibit to this Agreement unless otherwise indicated. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The phrase "made available" in this Agreement shall mean that the information referred to has been made available if requested by the party to whom such information is to be made available. The phrases "the date of this Agreement", "the date hereof", and terms of similar import, unless the context otherwise requires, shall be deemed to refer to September 5, 2002. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 9.4 Counterparts

This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more

counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

Section 9.5 Entire Agreement; Nonassignability; Parties in Interest

This Agreement, the Ancillary Agreements and the documents and instruments and other agreements specifically referred to herein or therein or delivered pursuant hereto, including the Exhibits, the Schedules, including the Company Disclosure Schedule and the Parent Disclosure Schedule (a) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, except for the Confidentiality Agreement, which shall continue in full force and effect, and shall survive any termination of this Agreement or the Closing, in accordance with its terms, (b) except as specifically stated in a particular section of the transaction documents referred to above, are not intended to confer upon any other person any rights or remedies hereunder, (c) except by operation of the Merger, shall not be assigned by operation of law or otherwise except as otherwise specifically provided, and (d) shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 9.6 Severability

In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

Section 9.7 Governing Law

THIS AGREEMENT IS MADE UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF CALIFORNIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED SOLELY THEREIN, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT THAT THE DELAWARE GENERAL CORPORATION LAW IS MANDATORILY APPLICABLE HERETO. In any action between or among any of the parties, whether arising out of this Agreement or otherwise, (a) each of the parties irrevocably and unconditionally consents and submits to the exclusive jurisdiction and venue of the state and federal courts located in California; (b) if any such action is commenced in a state court, then, subject to applicable law, no party shall object to the removal of such action to any federal court located in the Northern District of California; (c) each of the parties irrevocably waives the right to trial by jury; and (d) each of the parties irrevocably consents to service of process by first class certified mail, return receipt requested, postage prepaid, to the address at which such party is to receive notice in accordance with Section 9.2 hereof.

Section 9.8 Rules of Construction

The parties hereto agree that they have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

Section 9.9 Specific Performance

The parties hereto agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

[Signature page follows]

IN WITNESS WHEREOF, the Company, Parent, and the Stockholders' Agent have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized, all as of the date first written above.

QUANTUM CORPORATION

By: /s/ Rick Belluzzo

Name: Rick Belluzzo

Title: Chief Executive Officer

BENCHMARK STORAGE INNOVATIONS, INC.

By: /s/ Robert Beckemeyer

Name: Robert Beckemeyer

Title: EVP Finance & Admin, CFO

/s/ Jesse I. Aweida
As Stockholders' Agent

Name: Jesse I. Aweida

Exhibit 10.3

FIRST AMENDMENT TO AGREEMENT AND PLAN OF MERGER

This FIRST AMENDMENT TO AGREEMENT AND PLAN OF MERGER (this "First Amendment"), dated as of November 1, 2002, by and among Quantum Corporation, a Delaware corporation ("Parent"), Benchmark Storage Innovations, Inc., a Delaware corporation (the "Company"), and Jesse Aweida, as Stockholders' Agent (the "Stockholders' Agent").

RECITALS

WHEREAS, Parent, the Company and the Stockholders' Agent are parties to that certain Agreement and Plan of Merger, dated as of September 5, 2002 (the "Merger Agreement"), pursuant to which the Company is to be merged with and into Parent;

WHEREAS, Exhibit E attached to the Merger Agreement ("Exhibit E") contains conditions and restrictions relating to the payment of the Earnout (as such term is defined in the Merger Agreement); and

WHEREAS, Parent, the Company and the Stockholders' Agent wish to amend the terms of Exhibit E in the manner provided in this First Amendment.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Representations and Warranties. Each of the parties hereto represents and warrants to each other that such party has full power and authority (including full corporate power and authority) to execute and deliver this First Amendment and to perform its obligations hereunder, and that this First Amendment constitutes the valid and legally binding obligation of such party, enforceable in accordance with its terms and conditions.

2. Amendment of Exhibit E. The section entitled "Warranty Earnout" contained in Exhibit E is hereby amended by appending, at the end of such section, the following sentence: "Repair costs (including materials, labor and overhead), freight and amortization of swap pool costs accrued with respect to any warranty claims arising pursuant to that certain Agreement dated September 1, 2000 between Hewlett-Packard Company and the Company will not be included in the actual warranty cost for purposes of determining the amount payable under the Warranty Earnout."

3. Effect of Amendment. All references to the Merger Agreement or Exhibit E shall mean the Merger Agreement or Exhibit E as amended by this First Amendment. Except as specifically amended above, the Merger Agreement and Exhibit E shall remain in full force and effect in the original form agreed by the parties thereto, and are hereby ratified and confirmed.

4. Conflict or Inconsistency. In the event there is any conflict or inconsistency between the terms and conditions of this First Amendment and the terms and conditions of the Merger Agreement or Exhibit E, the terms and conditions of this First Amendment shall govern and control the rights and obligations of the parties.

5. Counterparts. This First Amendment may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

6. Severability. In the event that any provision of this First Amendment, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this First Amendment will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this First Amendment with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

7. Governing Law. THIS FIRST AMENDMENT IS MADE UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF CALIFORNIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED SOLELY THEREIN, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT THAT THE DELAWARE GENERAL CORPORATION LAW IS MANDATORILY

APPLICABLE HERETO.

8. Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation, preparation and execution of this First Amendment and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

9. Headings. The section headings contained in this First Amendment are inserted for convenience only and shall not affect in any way the meaning or interpretation of this First Amendment.

10. Amendment. The parties hereto may cause this First Amendment to be amended at any time in accordance with the provisions of Section 7.4 of the Merger Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the Company, Parent, and the Stockholders' Agent have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized, all as of the date first written above.

QUANTUM CORPORATION

By: /s/ John Gannon

Name: John Gannon

Title: President, DCTG

BENCHMARK STORAGE INNOVATIONS, INC.

By: /s/ Lewis Frauenfelder

Name: Lewis Frauenfelder

Title: President & CEO

/s/ Jesse I. Aweida

As Stockholders' Agent

Name: Jesse I. Aweida

QUANTUM CORPORATION

MICHAEL A. BROWN SEPARATION AGREEMENT

This Agreement is made by and between Quantum Corporation, a Delaware Corporation ("the Company"), and you, Michael A. Brown, as of September 3, 2002 (the "Effective Date").

This Agreement is intended to provide you with certain separation benefits in recognition of your past services with the Company should your employment with the Company terminate under certain circumstances, to provide you with enhanced financial security and sufficient incentive and encouragement to remain with the Company.

1. Separation Benefits. Subject to your compliance with Section 3 and your entering into and not revoking a release of claims with the Company (in the form provided by the Company), in the event your employment is terminated, you will be entitled to the following benefits:

(a) Involuntary Termination.

(i) Involuntary Termination During the Employment Term. If your employment terminates as a result of an "Involuntary Termination" (as defined below) during the Employment Term (as defined in your Employment Agreement dated as of September 3, 2002 (your "Employment Agreement")), then you will be entitled to the following:

(1) Separation Payment. You will be entitled to the remaining payments of any unpaid Base Salary (as defined in your Employment Agreement) with respect to the remainder of the Employment Term, payable in a lump sum as soon as administratively feasible after your termination date.

(2) Other Benefits. To the extent eligible on the date of termination, you will be permitted to continue participation, at no additional after-tax cost than you would have as an employee in the Company's health, life insurance and disability plans until September 2, 2003. To the extent such coverage cannot be provided under the Company's benefit plans without jeopardizing the tax status of such plans or for underwriting reasons, the Company shall pay you an amount such that you can purchase such benefits separately at no greater after-tax cost to you than you would have had if the benefits were provided to you as an employee.

(3) Accrued Benefits. The Company will pay you: (1) any unpaid Base Salary due for periods prior to the date of your employment termination, (2) any unpaid portion of your Separation Transition Award (as defined in your Employment Agreement) that becomes payable on January 1, 2003 pursuant to your Employment Agreement, (3) all of your accrued and unused vacation through the date of your employment termination, (4) following your submission of proper expense reports, the total unreimbursed amount of all expenses that you reasonably and necessarily incurred in connection with the business of the Company prior to the date of your employment termination, and (5) such other compensation or benefits from the Company as may be

required by law (collectively, the "Accrued Benefits"). These payments will be made promptly upon your employment termination and within the period of time mandated by law; provided, however, that any unpaid portion of your Separation Transition Award that becomes payable on January 1, 2003 pursuant to your Employment Agreement will be paid on or about that date.

(b) Termination for Cause; Other Termination. If (1) the Company terminates your employment at any time for "Cause" (as defined below), or (2) you voluntarily terminate your employment for any reason, then the Company will pay you the Accrued Benefits. These payments will be made promptly upon your employment termination and within the period of time mandated by law; provided, however, that any unpaid portion of your Separation Transition Award that becomes payable on January 1, 2003 pursuant to your Employment Agreement will be paid on or about that date.

2. Golden Parachute Excise Tax.

(a) Excise Tax Gross-Up. In the event that any payment or benefit provided for in this Agreement or otherwise payable to you, but determined without regard to any additional payment required under this Section 2 (collectively, the "Separation Payments"), would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar or successor provision to 280G, and (ii) be subject to the excise tax imposed by Section 4999 of the Code or any similar or successor provision to Section 4999, or any interest or penalties payable with respect to such excise tax (such excise tax, together with any such

interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then you shall be entitled to receive from the Company an additional payment (the "Gross-Up Payment") in an amount such that after your payment of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Separation Payments. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to (i) pay federal income taxes at the highest marginal rates of federal income taxation for the calendar year in which the Gross-Up Payment is to be made, and (ii) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(b) Determination of Amount. Subject to the provisions of this Section 2(b), all determinations required to be made under Section 2(a), including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determinations, shall be made by the public accounting firm that is engaged by the Company for general audit purposes as of the date immediately prior to the Change of Control (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Company shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Company shall bear all expenses with respect to the determinations by the Accounting Firm required to be made hereunder. Any good faith determinations of the Accounting Firm made hereunder shall be final, binding and conclusive upon the Company and the Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination by the Accounting Firm, it

is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") or Gross-Up Payments are made by the Company which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that you thereafter are required to make payment of any Excise Tax or additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest, to the extent not already within the Excise Tax, at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Company to or for your benefit. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse you for your Excise Tax, the Accounting Firm shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by you (to the extent you have received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Company. You shall cooperate, to the extent your expenses are reimbursed by the Company, with any reasonable requests by the Company in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax.

3. Non-Compete; Non-Solicit; Non-Disparagement.

(a) General. The parties to this Agreement recognize that your services are special and unique and that the level of compensation and the provisions herein for compensation after termination are partly in consideration of and conditioned upon your not competing with the Company, and that your covenant not to compete or solicit as set forth in this Section 3 during and after employment is essential to protect the business and goodwill of the Company.

(b) Noncompetition. You agree that commencing upon your termination of employment and until September 2, 2005 (the "Covenant Period"), you will not either directly or indirectly, whether as a director, officer, consultant, employee or advisor or in any other capacity engage in or have any ownership interest in or participate in the financing, operation, management or control of, any person, firm, corporation or business that "competes" with Company or is a customer or client of the Company; provided, however, that it will not be a violation of this Section 3 for you to acquire an investment not more than one (1) percent of the capital stock of a competing business, whose stock is traded on a national securities exchange or through the automated quotation system of a registered securities association. "Competes" shall be defined as competing directly in Quantum's tape drive, tape automation or data protection systems businesses, along with any other businesses Quantum may be directly engaged in on the date of the later to occur of: i) the termination of your employment; or ii) the termination of your status as a member of Quantum's Board of Directors. Examples of such competitors would include Storage Technology, ADIC, Seagate and Sony. Competes shall not be defined broadly to mean any storage business. For purposes of this Section 3, the term "Company" shall mean and include the Company, any subsidiary or affiliate of the Company, any successor to the business of the Company (by merger, consolidation, sale of assets or stock or

otherwise) and any other corporation or entity in which you may serve as a director, officer or employee at the request of the Company or any successor of the Company.

(c) Nonsolicitation. During the Covenant Period, you will not, directly or indirectly, induce or attempt to influence any employee of the Company to leave its employ.

(d) Nondisparagement. During the Covenant Period, you will not, directly or indirectly, disparage, impugn or make any derogatory public statements regarding the Company and/or its officers, directors or former or current employees.

(e) Injunctive Relief. You agree that the Company would suffer an irreparable injury if you were to breach the covenants contained in Sections 3(b), (c) or (d) and that the Company would by reason of such breach or threatened breach be entitled to injunctive relief in a court of appropriate jurisdiction and you hereby consent to the entering of such injunctive relief prohibiting you from engaging in such breach.

(f) Scope of Restrictions. If any of the restrictions contained in this Section 3 shall be deemed to be unenforceable by reason of the extent, duration or geographical scope or other provisions thereof, then the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope or other provision hereof and enforce this Section 3 in its reduced form for all purposes in the manner contemplated hereby.

(g) Effect on Payments and Benefits. You agree that should you violate the terms of this Section 3, you are not entitled to any of the Base Salary or benefits set forth in Section 1 and remaining to be paid.

4. Definitions. The following terms referred to in this Agreement shall have the following meanings:

(a) Cause. "Cause" shall mean:

(i) Any act of personal dishonesty taken by you in connection with your responsibilities as an employee that is intended to result in your substantial personal enrichment;

(ii) Your conviction of a felony;

(iii) A willful act by you which constitutes gross misconduct injurious to the Company; or

(iv) Continued violations of your obligations to the Company under the Company's established personnel policies and procedures which are demonstrably willful and deliberate on your part after the Company has delivered to you a written demand for performance that describes the basis for the Company's belief that you have not substantially performed your duties.

(b) Change of Control. "Change of Control" shall mean the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) A change in the composition of the Board occurring within a six (6) month period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the board of directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders

of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(c) Disability. "Disability" shall mean that you have been unable to perform your duties under this Agreement as the result of your incapacity due to physical or mental illness with or without reasonable accommodation, and such inability, at least twenty six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to you or your legal representative (such statement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least thirty (30) days' written notice by the Company of its intention to terminate your employment. In the event that you resume the performance of substantially all your duties hereunder before the termination of your employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(d) Involuntary Termination. "Involuntary Termination" shall mean:

(i) Without your express written consent, the assignment to you of any duties or the reduction of your duties, either of which results in a significant diminution in your position or responsibilities with the Company in effect immediately prior to such assignment, or your removal from such position and responsibilities (other than an assignment to Vice-Chairman, as contemplated by Section 1(a) of your Employment Agreement);

(ii) Without your express written consent, a substantial reduction of the facilities and perquisites (including office space and location) available to you immediately prior to such reduction;

(iii) A reduction by the Company in your Base Salary as in effect immediately prior to such reduction;

(iv) A material reduction by the Company in the kind or level of employee benefits to which you are entitled immediately prior to such reduction with the result that the Employee's overall benefits package is significantly reduced;

(v) Your relocation to a facility or relocation more than twenty five (25) miles from your then present location without your express written consent;

(vi) Any purported termination of your employment by the Company which is not effected for Cause;

(vii) Your termination of employment due to death or Disability; or

(viii) The failure of the Company to obtain the assumption of this Agreement by any successors contemplated in Section 5 below.

5. Assignment. This Agreement will be binding upon and inure to the benefit of (a) your heirs, executors and legal representatives upon your death, and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of your rights to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of your right to compensation or other benefits will be null and void.

6. Notices. All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Quantum Corporation
501 Sycamore Drive
Milpitas, California 95035
Attn: General Counsel

If to you:

at the last residential address known by the Company.

7. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

8. Entire Agreement. This Agreement, including the Employment Agreement, the Employee Agreement dated July 23, 1982 and your option and restricted stock agreements (except as modified herein), represents the entire agreement and understanding between you and Company concerning your employment relationship with the Company, and supersedes and replaces any and all prior agreements and understandings concerning your employment relationship with the Company, including, but not limited to, your Chief Executive Officer Change of Control Agreement with the Company dated April 1, 2001 (the "Change of Control Agreement").

9. Arbitration.

(a) General. In consideration of your service to the Company, its promise to arbitrate all employment related disputes your receipt of the compensation, pay raises and other benefits paid to you by the Company, at present and in the future, you agree that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from your service to the Company under this Agreement or otherwise or the termination of your service with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "Rules") and pursuant to California law. Disputes which you agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. You further understand that this Agreement to arbitrate also applies to any disputes that the Company may have with you.

(b) Procedure. You agree that any arbitration will be administered by the American Arbitration Association ("AAA") and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the National Rules for the Resolution of Employment Disputes or California Code of Civil Procedure. You agree that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. You agree that the arbitrator shall issue a written decision on the merits. You also agree that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. You understand the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that you shall pay the first $200.00 of any filing fees associated with any arbitration you initiate. You agree that the arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules shall take precedence.

(c) Remedy. Except as provided by the Rules, arbitration shall be the sole, exclusive and final remedy for any dispute between you and the Company. Accordingly, except as provided for by the Rules, neither you nor the Company will be permitted to pursue court action

regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law which the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, you agree that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or the Confidentiality Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code (S) 2870. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees.

(e) Administrative Relief. You understand that this Agreement does not prohibit you from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude you from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. You acknowledge and agree that you are executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. You further acknowledge and agree that you have carefully read this Agreement and that you have asked any questions needed for you to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that you are waiving your right to a jury trial. Finally, you agree that you have been provided an opportunity to seek the advice of an attorney of your choice before signing this Agreement.

10. No Oral Modification, Cancellation or Discharge. This Agreement may be changed or terminated only in writing (signed by you and the Company).

11. Withholding. The Company is authorized to withhold, or cause to be withheld, from any payment or benefit under this Agreement the full amount of any applicable withholding taxes.

12. Governing Law. This Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

13. Involuntary Termination Definition. You hereby agree that the transactions with Maxtor Corporation ("Maxtor") pursuant to the Amended and Restated Agreement and Plan of Merger and Reorganization, dated as of October 3, 2000 (the "Merger Agreement"), by and among the Company, Insula Corporation ("Insula"), and Maxtor or the new terms of your employment with the Company pursuant to the Employment Agreement and this Agreement (including, but not limited to, the change in your title and any change in your authorities, duties and responsibilities with the Company) do not constitute an "Involuntary Termination" under this Agreement or your Change of Control Agreement.

14. Acknowledgment. You acknowledge that you have had the opportunity to discuss this matter with and obtain advice from your private attorney, have had sufficient time to, and have carefully read and fully understand all the provisions of this Agreement, and are knowingly and voluntarily entering into this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the respective dates set forth below:

MICHAEL A. BROWN

/s/ Michael A. Brown — Date: October 22, 2002

Michael A. Brown

QUANTUM CORPORATION

/s/ Gregory W. Slayton — Date: October 24, 2002

Name: Gregory W. Slayton
Title: Chairman, Compensation Committee

QUANTUM CORPORATION

MICHAEL A. BROWN EMPLOYMENT AGREEMENT

This Agreement is made by and between Quantum Corporation, a Delaware corporation (the "Company"), and you, Michael A. Brown, as of September 3, 2002 (the "Effective Date").

1. Duties and Scope of Employment.

(a) Positions and Duties. You will serve as the employee Chairman of the Board of Directors of the Company (the "Board"). Your duties will include, but not be limited to, (1) advising, coaching and mentoring the Company's Chief Executive Officer and other senior management, (2) chairing the meetings held by the Board, (3) leading corporate governance initiatives, (4) assisting with remaining issues relating to the Maxtor divestiture, and (5) other duties as agreed between you and the Board. Prior to January 1, 2003, you shall make yourself available for full-time employment. Beginning January 1, 2003, you shall make yourself available for employment on a part-time basis as required by the Company. If the Board appoints the Company's CEO as Chairman of the Board during your term of employment with the Company, you will serve as the employee Vice-Chairman of the Board.

(b) Board of Directors. You will continue to serve as a member and Chairman of the Board, subject to any required Board and/or stockholder approval. If the Board appoints the Company's CEO as Chairman of the Board, you will serve as a member and Vice-Chairman of the Board, subject to any required Board and/or stockholder approval. You agree that you will not receive additional compensation (including option grants) for your service as a member of the Board during your employment with the Company. After your employment with the Company ends and for so long as you remain a member of the Board, you shall be eligible to receive compensation (including option grants) for your services as a director comparable to that paid to other members of the Board.

(c) Obligations. During the Employment Term (as defined in Section 1(d)), you will devote your full effort to the performance of your duties and will perform them faithfully and to the best of your ability. For the duration of the Employment Term, you agree not to actively engage in any other employment, occupation or consulting activity for any direct or indirect remuneration without the prior approval of the Board, which approval will not be unreasonably withheld; provided, however, that you may, without the approval of the Board, serve in any capacity with any civic, educational or charitable organization.

(d) Employment Term. Your term of employment with the Company is referred to as the "Employment Term." The Employment Term shall commence on the Effective Date of this Agreement and shall continue through September 2, 2003. Subject to the Company's obligation to provide separation benefits as specified in the Separation Agreement between you and the Company, dated as of September 3, 2002 (the "Separation Agreement"), you and the Company acknowledge that this employment relationship may be terminated at any time, upon thirty (30) days written notice

to the other party, with or without cause and for any or no cause or reason, at the option of either you or the Company.

2. Compensation.

(a) Base Salary. During your employment with the Company, the Company will pay you a base salary ("Base Salary"). As of the Effective Date, your annualized Base Salary shall be $600,000. Effective as of January 1, 2003, your monthly Base Salary shall be $75,000. The Base Salary will be paid through payroll periods that are consistent with the Company's normal payroll practices.

(b) Bonus. For calendar year 2002, you will continue to be eligible to receive a bonus based upon the achievement of one or more performance goals specified by the Compensation Committee of the Board (the "Committee"), as provided in the Company's Executive Officer Incentive Plan.

(c) Separation Transition Award. In recognition of your services and contributions to the Company, you will receive an award of $3.6 million (the "Separation Transition Award"). The Separation Transition Award is guaranteed and will be paid to you in a lump sum on or about January 1, 2003 regardless of your employment status on that date.

(d) Options.

(i) You agree that you will authorize the cancellation of 1.531 million outstanding options, whether vested or unvested, as of November 3, 2002.

(ii) On the date you sign this Agreement, one hundred percent (100%) of the shares of Company common stock ("Common Stock") subject to any stock option held by you under the Company's stock option plans and outstanding on that date will accelerate and vest. Your outstanding vested stock options will remain exercisable until September 2, 2005 (but in no event later than the expiration of the term of the options as set forth in the related stock option agreements).

(iii) You acknowledge and agree that during the Employment Term and thereafter, your outstanding options to purchase Company Common Stock shall be governed by the terms of the applicable stock plans, your option agreements, this Agreement and your Separation Agreement. The Board retains the discretion to modify such options as it determines in its sole discretion, consistent with past practice and subject to the terms of the applicable stock plans (provided that no such modification shall impair your rights unless mutually agreed in writing).

(e) Employee Benefits. During your employment with the Company, you will be eligible to participate in all Company employee benefit plans, policies and arrangements that are applicable to other employees of the Company (subject to the terms of such plans, policies and arrangements), as such plans, policies and arrangements and terms may exist from time to time; provided, however that you will not be eligible to participate in any Company bonus plan after December 31, 2002.

3. Assignment. This Agreement will be binding upon and inure to the benefit of (a) your heirs, executors and legal representatives upon your death, and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of your rights to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of your right to compensation or other benefits will be null and void.

4. Notices. All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Quantum Corporation
501 Sycamore Drive
Milpitas, California 95035
Attn: General Counsel

If to you:

at the last residential address known by the Company.

5. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

6. Entire Agreement. This Agreement, the Separation Agreement, the Employee Agreement dated July 23, 1982 and your option and restricted stock agreements (except as modified herein), represent the entire agreement and understanding between you and Company concerning your employment relationship with the Company, and supersede and replace any and all prior agreements and understandings concerning your employment relationship with the Company, including, but not limited to, your Chief Executive Officer Change of Control Agreement with the Company dated April 1, 2001 (the "Change of Control Agreement").

7. Arbitration.

(a) General. In consideration of your service to the Company, its promise to arbitrate all employment related disputes your receipt of the compensation, pay raises and other benefits paid to you by the Company, at present and in the future, you agree that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer,

director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from your service to the Company under this Agreement or otherwise or the termination of your service with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "Rules") and pursuant to California law. Disputes which you agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. You further understand that this Agreement to arbitrate also applies to any disputes that the Company may have with you.

(b) Procedure. You agree that any arbitration will be administered by the American Arbitration Association ("AAA") and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the National Rules for the Resolution of Employment Disputes or California Code of Civil Procedure. You agree that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. You agree that the arbitrator shall issue a written decision on the merits. You also agree that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. You understand the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that you shall pay the first $200.00 of any filing fees associated with any arbitration you initiate. You agree that the arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules shall take precedence.

(c) Remedy. Except as provided by the Rules, arbitration shall be the sole, exclusive and final remedy for any dispute between you and the Company. Accordingly, except as provided for by the Rules, neither you nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law which the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, you agree that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or the Confidentiality Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code (S) 2870. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees.

(e) Administrative Relief. You understand that this Agreement does not prohibit you from pursuing an administrative claim with a local, state or federal administrative body such as

the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude you from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. You acknowledge and agree that you are executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. You further acknowledge and agree that you have carefully read this Agreement and that you have asked any questions needed for you to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that you are waiving your right to a jury trial. Finally, you agree that you have been provided an opportunity to seek the advice of an attorney of your choice before signing this Agreement.

8. No Oral Modification, Cancellation or Discharge. This Agreement may be changed or terminated only in writing (signed by you and the Company).

9. Withholding. The Company is authorized to withhold, or cause to be withheld, from any payment or benefit under this Agreement the full amount of any applicable withholding taxes.

10. Governing Law. This Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

11. Acknowledgment. You acknowledge that you have had the opportunity to discuss this matter with and obtain advice from your private attorney, have had sufficient time to, and have carefully read and fully understand all the provisions of this Agreement, and are knowingly and voluntarily entering into this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the respective dates set forth below:

MICHAEL A. BROWN

/s/ Michael A. Brown Date: October 22, 2002

Michael A. Brown

QUANTUM CORPORATION

/s/ Gregory W. Slayton Date: October 24, 2002

Name: Gregory W. Slayton
Title: Chairman, Compensation Committee

Exhibit 10.6

AMENDMENT NO. 1
TO THE
QUANTUM CORPORATION 1993 LONG-TERM INCENTIVE PLAN
(AS AMENDED MAY 29, 2001)

QUANTUM CORPORATION (the "Company"), having adopted the Quantum Corporation 1993 Long-Term Incentive Plan (as amended May 29, 2001) (the "Plan"), hereby amends Section 7(c)(ii) of the Plan, effective as of November 4, 2002, to read as follows:

> "Termination of Employment or Consulting Relationship. In the event an Optionee's Continuous Status as an Employee or Consultant terminates (other than upon the Optionee's death or Disability), the Optionee may exercise his or her Option or SAR within such period of time as is determined by the Administrator and only to the extent that the Optionee was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option or SAR as set forth in the Option or SAR Agreement). In the absence of a specified time in the Option or SAR Agreement, the Option or SAR shall remain exercisable for three (3) months following the Optionee's termination. To the extent that the Optionee was not entitled to exercise an Option or SAR at the date of such termination, and to the extent that the Optionee does not exercise such Option or SAR (to the extent otherwise so entitled) within the time specified herein, the Option or SAR shall terminate."

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Amendment No. 1 to the Plan on the date indicated below.

QUANTUM CORPORATION

Dated: November 4, 2002

By /s/ Shawn Hall

Name: Shawn Hall
Title: VP, General Counsel

Exhibit 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard Belluzo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation on Form 10-Q for the fiscal quarter ended September 29, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

By: /s/ Richard Belluzo

Name: Richard Belluzo
Title: Chief Executive Officer

Exhibit 99.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael J. Lambert, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation on Form 10-Q for the fiscal quarter ended September 29, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

By: /s/ Michael J. Lambert

Name: Michael J. Lambert
Title: Executive Vice President, Finance
and Chief Financial Officer